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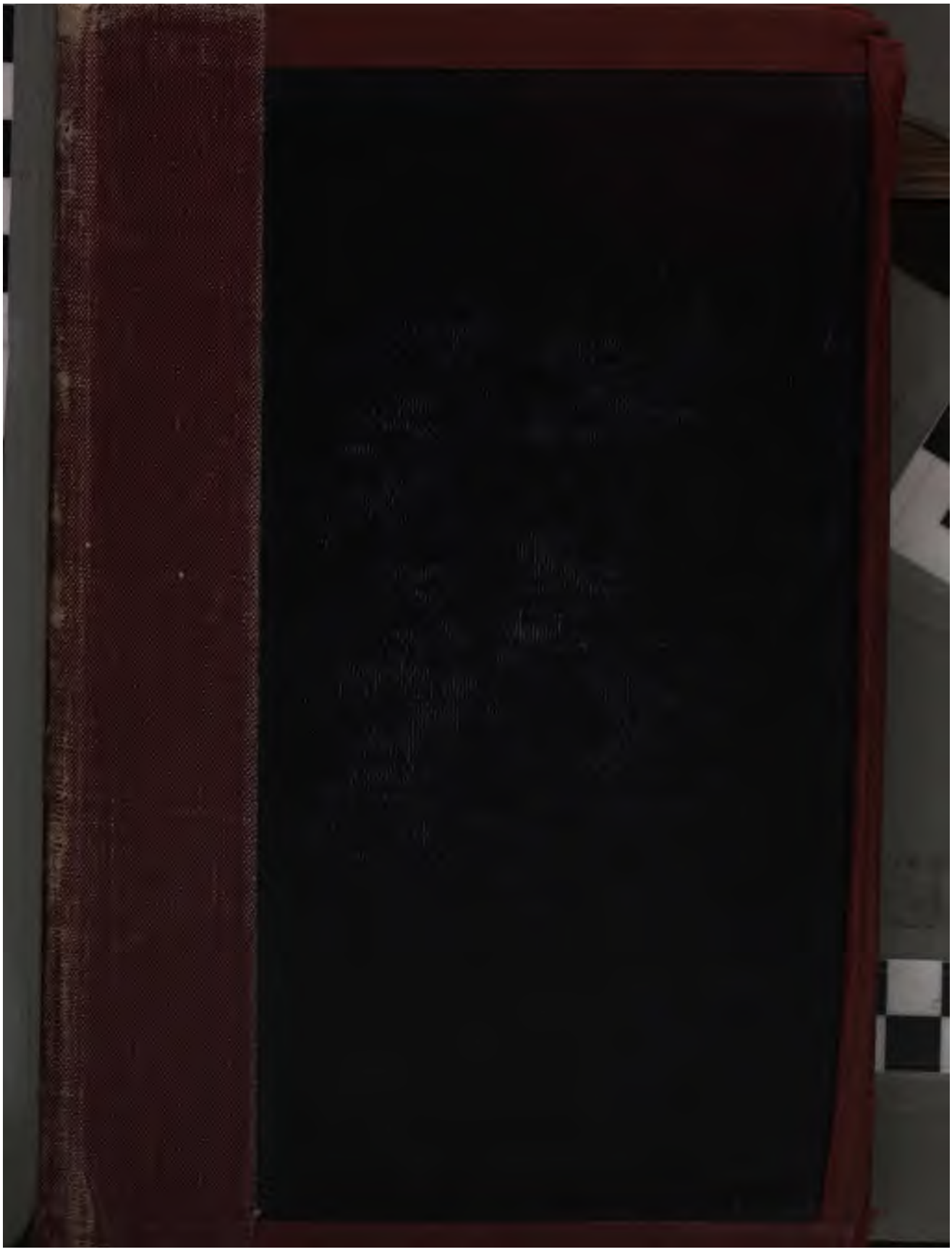

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THE EXPORT OF CAPITAL

THE

EXPORT OF CAPITAL

THESIS APPROVED FOR THE DEGREE OF DOCTOR OF SCIENCE (ECONOMICS) IN THE UNIVERSITY OF LONDON

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PREFACE

THE following work falls into three parts. Chapters I.-III. treat the export of capital mainly from the analytic standpoint; Chapters IV.-VI. deal with it historically; and Chapters VII. and VIII. are devoted to examining some statistical aspects of the subject. Foreign investment has hitherto received but scant and cursory attention on the part of economists, but the importance of the subject has grown by leaps and bounds in the last few years. It has appeared to me desirable that the question should be examined in a more thorough and detailed way than has hitherto been the case. Information has, therefore, been brought together, and as far as possible systematised; while economic theory has been employed in a study of the causes and consequences of the export of capital. I have also made an attempt to establish statistically some facts as to the amount of capital exported from the United Kingdom. Where the researches of other writers have been made use of, and where ideas which it was thought could not be regarded as common property have been borrowed, I have indicated the source.

I wish, in conclusion, to take this opportunity of

expressing my sense of obligation to the authorities of the London School of Economics, where I have held the Shaw Research Studentship. Special thanks are due to Professor Edwin Cannan for valuable advice and criticism. To Mr. W. G. Constable and Mr. W. T. Layton I make grateful acknowledgments for fruitful suggestions and assistance. In revising the proof-sheets I have again received serviceable help from Mr. W. G. Constable, as also from my father, and from my brother, Mr. O. R. Hobson.

C. K. H.

The London School of Economics,
January 1914.

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INTRODUCTION

A FEW years ago the British public was startled by a new cry—the cry that capital was being driven abroad by socialistic legislation and confiscatory taxation. The catch phrase was proclaimed from political platforms, was blazoned in the Press, and was echoed by thousands in the streets. Foreign investment was regarded as a new and portentous phenomenon, without precedent in the history of this country, as a running sore, sapping the life blood of British industry and adding fresh strength to our most formidable rivals and competitors. The matter was discussed in Parliament. A well-known statesman made the discovery that all the great ships going westward across the Atlantic were carrying bonds and stocks in ballast. Another speaker deplored the gold famine which oppressed the City at the moment in words which called to mind the assertion of a Colonial Premier, some years before, that the United Kingdom exported annually 160 million golden sovereigns. Other speakers lamented the increase of unemployment, and the stagnation of trade, which they attributed to the unparalleled outflow of capital.

But in the stress of party politics and the turmoil

of daily journalism, there is rarely time or opportunity to sift or scrutinise the facts of the case. A calmer atmosphere and a more leisurely pen are requisite if the nature and effects of foreign investment are to be discovered and set forth in their true light. The origin of the present gigantic efflux of capital must be sought deep in the past. Springing from the enterprise of merchants, the needs of princes, and the undeveloped resources of distant lands, foreign investment was stimulated by trade relations and fostered by the growth of security. In recent years this process has been accelerated, and the movement of capital from these shores has never before attained to such dimensions as at the present time. The phenomenon is not merely economic in nature; it has a profound ethical and moral significance. Seeds of the material civilisation of Western Europe are being scattered more and more thickly over the most distant parts of the world, particles of energy which are destined to exert an influence of increasing potence upon human life and thought. It is from this aspect that the subject requires perhaps the most careful examination, for the whole future of society is concerned, and endless vistas of speculation and inquiry are opened up.

No such ambitious task is here attempted. In the following pages attention is directed almost exclusively to the economic aspects of foreign investment, and especially to those which concern the position of Great Britain to-day. It may, however, be claimed that the questions selected for investigation are not merely of great importance in themselves, but constitute

also an indispensable preliminary to the consideration of those broader problems which occupy the mind of the statesman and the philosopher. In forming an opinion as to whether foreign investment is good or bad—as to how far it should be encouraged or discouraged—it is essential to ascertain as definitely as possible whether or not the movement increases the economic wealth and the economic welfare of the country that invests, and of the rest of the world. Even within this limited scope certainty is difficult to achieve; but economics is at the present time by far the most exact of the social sciences, and as such can rightly claim precedence in the actual discussion of social problems.

The first three chapters of the present volume are devoted to studying the manner in which capital is exported, the causes of investment abroad, and the economic effects of the movement upon the investing country. Although capital is generally measured in terms of money, it is essential in studying problems of investment to take account of the substance of capital, as well as of the money measure. Substantially, capital consists of goods, of accumulated wealth. It is a stock of commodities employed to assist the production of further commodities. It follows that a nation can only increase its foreign investments by sending goods abroad, by supplying foreign countries with more goods and services than would be required to pay for purchases and to meet other obligations. The goods by which British foreign investments are represented are of various kinds and

are purchased in various places. Sometimes they are ordered in the United Kingdom, and figure as exports in the official statistics. In other cases they are ordered in foreign countries, and the effect may be equivalent to diverting a portion of the goods which would have been imported into this country. It will be shown that in many parts of the world (including South America, Australia, and India), railways, which absorb more British capital than any other form of enterprise, are to a great extent constructed with British rails and materials. In North America and elsewhere the tendency is the other way. Although large amounts of British capital continue to be invested in those parts of the world, the capital has been more and more largely represented by goods not of British origin.

The causes of foreign investment are primarily economic, and centre in the return which capitalists expect to derive from various kinds of investment, and in the risks and uncertainties which investors are willing to assume. Other things being equal, the investor will naturally prefer the investment that yields him the largest income. But it is often difficult to judge the quality of a possible investment in a distant land, especially when that land is inhabited by a different race of men, possessing different institutions, and speaking a strange tongue. Barriers to intercourse impede the flow of capital to those parts of the world where it would produce the greatest amount of wealth, and yield the highest return. Although knowledge about foreign countries and about

fields of investment is now far easier to obtain than in the past, the comparatively low yield of many British stocks probably indicates that many investors still pursue the easy policy of investing their capital in undertakings of recognised solidity at home. This tendency, however, is now much weaker than it has been in the past, and the movement to invest abroad has probably also been encouraged by well- or ill-founded fears of socialistic legislation, and by the desire to spread risks by investing in various countries or in diverse industries.

It is clear that the growing popularity of foreign investments has in some measure caused the rise in the rate of interest, which has attracted so much attention during recent years. Whatever view be taken as to the social consequences of a high rate of interest, it is at any rate evident that the wealth of the world as a whole benefits if capital flows to those quarters where it is most needed—provided always that it is not used for purposes of waste or destruction, such as war, or for the exploitation and oppression of helpless savages. The income and wealth of the United Kingdom are clearly also increased by the high returns obtained on foreign investments, and by the cheapening of goods to consumers through increased production. One of the principal effects of British foreign investments has been to increase the supplies of food and raw materials, without which the life of our growing population could not have been sustained. The number of inhabitants in Great Britain has been multiplied, while the profitable openings for capital

within this country have been greatly increased, simultaneously with the amount of wealth accumulated. But the rapid rise in the rate of interest of recent years (owing in some measure to foreign investment) has caused disturbances in the distribution of wealth. Holders of securities yielding a fixed rate of interest have watched, in many cases with alarm, the value of their capital falling; while the growth of profits has seriously affected the working-classes. For both interest and wages are derived from the national income, and if capital gets a larger proportion, labour and land must accept a smaller share. Unless foreign investment during recent years has increased the total *amount* of the national income in such a measure as to compensate work-people for the smaller *proportion* which they now obtain, the export of capital has probably been disadvantageous to them. Whether this is the case or not cannot be definitely ascertained. It is uncertain to what extent the actual rise in the rate of interest is due to the export of capital, and it is uncertain how far the large increase which has taken place in the national income can be attributed to foreign investment. A further important consequence of the export of capital must also be mentioned, namely, its effect on emigration. The development of foreign countries by imported capital causes a demand for labour to spring up to co-operate with the capital. High wages attract immigrants from countries where wages are low. Thus British investments in America probably assisted the movement of popula-

tion from Ireland. British capital exports also stimulate emigration from England and Scotland; but the effects upon the poorer countries of the Continent, such as Italy, are, probably, even more marked.

The historical chapters of this work are intended to furnish illustrations of the forces at work, and to make clear the present position of British foreign investment by bringing it into relation with the past, and by indicating corresponding movements in other countries. It is roughly but a century since Great Britain began to send large masses of capital abroad. Some capital was invested in earlier times in India, in the West Indies, and in the American Colonies; and the great development of our trade with these countries was doubtless a sign of what was to come. But in the seventeenth and eighteenth centuries probably more capital was imported into the United Kingdom than was exported. Holland was our great creditor, and Amsterdam was the principal financial centre of the world. Not till the time of the Napoleonic wars was financial supremacy transferred to London. The immense development of our economic resources at the end of the eighteenth and beginning of the nineteenth centuries, combined with the exhaustion of Europe, and the backward condition of industry both there and in America, soon produced an unprecedented outflow of British capital to the Continent and to the United States. A prolonged peace brought with it a feeling of security among investors, and the export of capital was interrupted only by occasional revolutions and scares. The advent of the railway

created an immense demand for capital, and British capitalists found railway investments peculiarly adapted to their taste. As the century advanced, the countries in which we had chiefly invested capital themselves began to dispose of large accumulations. After 1850 France made rapid strides, and soon attained a position in the domain of finance not very far behind that of Great Britain; Germany took the field somewhat later; while the United States, after a marvellously rapid internal development, towards the end of the century also began to show a capacity to export capital on a large scale. As the earlier fields of investment became replete, British investors tended to send their capital more largely to other parts of the world, to Asia, Africa, Australia, South America, and Canada; and the securities formerly held were in many cases sold to other capitalists. A further feature of the movement deserves mention. The perfecting of the joint-stock company, and the general recognition granted to this form of organisation, made it possible for capital successfully to undertake in distant lands enterprises which could not otherwise have been undertaken. Improvements in the speed and cheapness of communication, too, facilitated the exercise of effective control over capital invested at a distance. Consequently, British and European capital has been spread more and more widely over the world, and the purposes to which it has been applied have increased in diversity.

In the final section of this volume some statistical aspects of foreign investment are studied. An en-

deavour is made to use the Board of Trade statistics of imports and exports for the purpose of discovering the amount of British capital exported over a series of years. Allowance is made for items which enter into the international balance-sheet, but are not included in the official figures. The chief of these are freight earnings from British shipping; the earnings of bankers, commission agents, and insurance companies for services performed on behalf of foreigners; and the cost of Indian and Colonial administrations in London. On the other hand, there is an item of a non-commercial nature for which allowance must also be made, viz. remittances by emigrants to their friends at home. After making the necessary adjustments, the balance between imports and exports represents the difference between (i.) the amount of capital exported, plus interest on investments by foreigners in this country, and (ii.) the interest on British capital invested abroad, plus capital sent by foreigners into the United Kingdom. As it may be assumed that new investments by foreigners are about equal to the interest on the capital already invested, there is left the difference between the export of British capital and the import of interest. The sums due as interest are estimated from returns published by the Inland Revenue Commissioners, and the extent of the annual outflow of capital is thus ascertained. The results obtained are then compared with statistics of public issues in London of capital for investment abroad, with similar statistics for home investments, with emigration statistics, and with the trade union

returns of unemployment. Broadly speaking, periods of active foreign investment occur simultaneously with a large volume of emigration, and with a low degree of unemployment. Home investment also appears to be active when unemployment is low, but times of large home and large foreign investment do not always coincide.

From this brief resumé it will be seen that the following pages deal only with a few of the problems which arise in the study of foreign investment. No attempt is made to arrive at a general conclusion as to whether the export of capital is on the whole good or bad, for economic considerations are always liable to be outweighed by ethical and moral considerations, and must always be interpreted with due regard to them. As the following pages are concerned almost exclusively with economic matters, and primarily with the economic effects of foreign investment upon the investing country, a few words about other aspects may not be out of place. Even though it be admitted that foreign investment increases the wealth of the investing country, it is obvious that the distribution of that wealth may conceivably be altered for the worse ; while, even if the distribution of wealth were unaffected or were actually improved, it might be contended that national interests were imperilled by the strengthening of other countries, or by changes in the character of industry, and the nature of employment. For example, it might be urged that the export of capital to America had hastened the day when Great Britain should become a relatively in-

significant power in moulding the destinies of the world. Or it might be held that the decay of British agriculture, largely attributable to the development of railways in new countries, was a cause of physical decadence, and was disastrous to the continued well-being of the race. The luxurious expenditure of many *rentiers* might also incur censure. Arguments on these lines may be valid or invalid, but the ultimate answer to the question whether foreign investment is desirable or undesirable depends partly upon the view which is taken in regard to them.

There is another equally important aspect of the question, namely, that touching the welfare of the countries which absorb capital, and their relations with the investing countries. The effects wrought by capital invested abroad obviously depend, in the first place, on the purposes for which the capital is used. If the capital is employed with the object of securing a development of the borrowing country's resources, it will clearly tend to increase the income of the country, to enlarge the demand for labour, and to improve the economic condition of the working classes. But history shows that capital may be used for purposes of exploitation in the worst sense of the word. European relations with India in earlier times, and in more recent years with parts of Africa and South America, are particularly flagrant examples. Capital has been employed in numerous instances to drain countries of their resources, to weaken them economically, and to degrade them morally. The danger is especially great when highly organised

communities are brought into contact with primitive peoples of lower education and intelligence. Uncivilised and half-civilised peoples have been ruined for the temporary benefit of countries with a more perfect material development.

Cases of misapplication of capital have been excessively common. They are not confined to commercial ventures of the kind mentioned above, which actively oppress helpless natives in the territories where they operate. The desirability of particular investments cannot be proved by the fact that the investors find their outlay financially remunerative to themselves; nor does it necessarily follow that a financially unsuccessful investment is unproductive of good to the world at large. The self-interest of individual investors is but an unreliable guide to the interest of nations and of the human race. Were the two interests identical, history would have been very different from what it has been. San Thomé, the Congo, and the Putumayo would not have been a blot upon European civilisation, while many a war might have been checked at its inception. But happily the resources of European States have been exported predominantly for purposes of genuine development, for constructing railways and public works, and for providing the fixed capital of industry. In every country of the world the fruits of this investment are being reaped, and the world's wealth is growing in consequence at a prodigious rate.

Some of the most intricate and momentous problems of foreign investment are connected with

loans to alien Governments. It has been said that the possession of a national debt is one of the first signs of civilisation. Borrowers are always eager to lend where there is a chance of big profits, and the Governments of weak and backward countries often fall an easy prey to the wiles of financiers, when they are faced with difficulties, internal or external. The money may be squandered upon objects which promote no social interest, and do not therefore stimulate any feeling of responsibility in regard to the loan on the part of the subjects of the borrowing State. The fear of loss is apt to make lenders grant even more extensive credits to weak and financially unsound Governments, in order that the consequences of an initial mistake may be palliated. The ever-increasing indebtedness of Russia to France is perhaps the most striking instance of the way in which a lender finds himself bound to the chariot wheels of his creditor. There is a tendency, too, for the lender to support the borrowing State where the loan has been spent contrary to the public will, on the ground that the service of the loan is thus rendered more secure. In cases where the borrowing country is weak, lenders may consider that their interests are best served by encroaching upon the political independence of the borrower, and the Government policy of the lending State may be formed accordingly. The necessities of the borrower are the opportunity of the lender. If a new loan is arranged, provisions may be inserted securing rights of control to the creditors. If the debtor Government refuse to grant such terms, lenders may

consider it in harmony with their own interests to force the country into bankruptcy, and then to bring pressure upon their own Government to intervene. A committee of foreign bond-holders is appointed, and all the language of justice outraged is used to stir up public opinion against the defaulter. Governments which owe money abroad are of course no less peccable than other Governments, when they default; but it is obvious that the danger which they run is very serious for them, and may well cause them to think twice before refusing to fall in with the views of their creditors. The Venezuelan blockade at the close of 1902 is an example of the kind of action which can or could be taken by creditors and their Governments. It is true that the Second Hague Conference resulted in a Convention limiting the use of armed force for the recovery of contract debts claimed from the Government of one country by the Government of another country, as being due to its subjects. But the terrors which can be held out against a recalcitrant Government are still capable of inspiring awe.

Apart from political effects, which may or may not be considered good, reliance upon force for the collection of debts clearly tends to make capitalists pay less attention than they would otherwise pay to the objects upon which foreign loans are expended. In dealing with semi-civilised and inexperienced Governments, even more than when negotiating with advanced and highly organised Governments, economic wealth and welfare require that lenders should insist on loans being well spent, on objects which promote the develop-

ment of the country. Those countries which derive real economic benefit from the money lent to them are far less likely than others to default or to repudiate their obligations. On the one hand, the national revenue, and the source from which it flows, will be increased, so that payment will become more easy; and, on the other hand, the desire for further development and further loans will dictate a policy of scrupulous punctiliousness in the service of earlier loans. Even if misfortune befall, and the Government be compelled to suspend the payment of interest, it will be more likely to meet its obligations when circumstances permit. Thus Argentina on two occasions defaulted owing to insolvency caused by anarchy and political complications. But on each occasion—once after an interval of thirty years—all arrears were paid, and the service of the debt was resumed. Reliance on force doubtless induces lenders to advance money to weak borrowers at a lower rate than would otherwise be the case; but the strongest advocate would be bound to admit the unsatisfactory nature of a system in which lenders speculate on the possibility of intervention by their Government, and use all their influence to bring about such intervention.

It is generally recognised that politics and finance go hand in hand. European States are at the present day anxious to gain political and economic advantages for themselves and their subjects, and readily make use of their financial power. Even the British Government, whose powers are smaller in this respect than those of France and Germany, can do a great

deal to hinder or promote loans to foreign States. The British Government cannot prohibit loans or refuse quotation on the Stock Exchange, but it appears nevertheless to be customary for financiers to seek the support of the Foreign Office when negotiating new loans; and opposition from that quarter is formidable—though not fatal, as the successful conclusion of the Crisp loan to China, in 1912, proved.

Government control over loan operations, it would seem, may in its effects be either good or bad. It is likely to be bad where it is directed solely in the interests of financiers and of investors. But a Government which bases its action upon a broad view of public policy, and takes into consideration the interests not only of its own subjects but also of other countries, may, it would seem, achieve good. The chief objection to such action appears to be the practical one of deciding what the interest of the world requires. The British Government, for example, supported the Six Power Loan to China on the ground that it was desirable that the chief Powers should act in agreement, and should not each try separately to get political advantages for itself. But President Wilson, in withdrawing official support from the American group, stated that he regarded the loan as obnoxious to the principles on which the American Government rested. Such differences in the points of view of progressive statesmen serve to emphasise the difficulties in the way of a desirable political control. It must be remembered too that Governments are liable to be unduly influenced by vested interests. The

exercise of Government control over investment should therefore be closely watched by the public to see that it is prompted by a generous, impartial, and well-directed policy. Whatever view be taken as to the desirability of Government control, public opinion should be impressed with the fact that power carries with it also obligations. The power of wealthy European States is manifested not less in the capital which they possess than in their mighty armies and fleets. Capital should be lavished where the interests of the world demand, and it should be stinted where lending would confer no real benefit upon society. The responsibilities of rich investing countries require a wider outlook than is possible or desirable for countries which are themselves undergoing a rapid economic development, and whose duties to the world, therefore, largely coincide with their economic duties to themselves. The task of British, French, and German investors should be not merely to provide or withhold capital from the world at their own whim and fancy, but to guide and direct the flow for the common benefit of humanity.

CHAPTER I

METHODS OF FOREIGN INVESTMENT

A MAN'S capital is commonly regarded as that part of his wealth which he devotes to acquiring an income. If this be accepted as a tolerably accurate definition of what the business man or investor means when he speaks of his capital, we may say that foreign investments consist of that part of the property of a country and its inhabitants, situated abroad, from which its owners expect to derive an income.

Setting aside for the present a consideration of the nature of the income which is expected by foreign investors, it is clear that methods by which property abroad may be acquired are no more narrowly limited than the methods of acquiring property in general. Conquest, confiscation, theft, may result in the acquisition of property from which an income is derived, just as may the more peaceful methods of saving and accumulation. But as a study of the former methods of acquisition would lead to a minute examination of international political relations, while the problems of foreign investments are predominantly associated with property acquired through methods sanctioned by law and order, attention will be confined to ordinary

economic processes. The foreign investments which we shall mainly consider are those made by saving. The saving may occur either at home or abroad; but unless property abroad is acquired by persons themselves abroad, who return home subsequently, the property must be exported in the first instance from the investing country, or some imports to which the country would have been entitled must be forgone.

The kind of wealth that will be exported will depend, of course, upon the nature of the goods which the country can produce, and the kind of goods required by the country in which capital is to be invested. The capital will be sent in the form of those goods and services which can be most easily spared, and the demand for which in foreign countries is most keen. Thus it is possible that the capital may be represented by gold, and this is more likely to be the case if the investing country is itself a producer of gold. In the case of a country such as the United Kingdom, which does not itself produce gold, the extent to which gold may flow abroad is, of course, strictly limited. A big demand for export would tend to raise the value of gold in this country—a fact which would be reflected in the Bank Rate—and to lower its value in other countries, unless the foreign demand for gold were increased by the development resulting from foreign investment. It would then be more profitable to send further exports in some other form. A similar rule applies to other kinds of wealth exported, whether it be services, such as shipping, performed on behalf of foreigners, or material commodities. An increase

in the demand for any particular commodity will tend, over short periods, to drive up prices, and so to curtail the amount exported. There will thus be a constant adjustment—a tendency for the last sovereign's worth of every class of wealth to represent the same sacrifice to the exporting country.

Foreign investment represents a demand abroad for particular kinds of goods for use as capital, and may tend in the long run, therefore, to affect the character of the goods produced in the country which invests. It may pay to produce more of some goods and less of others. But the goods which are required as capital abroad need not be themselves produced in the country which invests; they may be produced elsewhere, and in regard to this there are two possibilities: either the actual capital goods are purchased by means of an export from the investing country, or the investing country refrains from importing goods which would otherwise have been imported, and uses these to secure the actual capital goods.

The latter is especially noteworthy in some countries where an extension of foreign investments is partly equivalent to a reinvestment of the interest on previous investments. The recipients of interest on existing investments, indeed, may all be paid in cash, but there need be no movement of goods or services into the country to correspond with these payments, provided the same people or others are meanwhile investing capital abroad. A foreign Government, or a concern operating abroad, which has to pay interest or dividends in London, purchases

bills on London, or, what comes to the same thing, sends a remittance through a foreign bank. Then, other things being equal, unless there is to be an alteration in the balance of international indebtedness, this remittance will have to be accompanied by actual exports to England. But if, at the same time, remittances are being sent from London to foreign countries in order to swell British capital investments, the sending of such remittances to England may be dispensed with. The capital goods required may be obtained either within the foreign country itself or from some other country, in which case they will be purchased in the ordinary course of trade. It is thus possible that an extension of British foreign investments may take place not through an increase in the value of exports, but by means of a diminution on the side of imports. This point is of importance in the case of British foreign investments because there is a constant flow of income from old investments abroad—a flow which exceeds, in most years, the volume of new capital invested abroad. Hence it might be the case that the growth of British foreign investments was accomplished entirely, or almost entirely, by stinting our imports, and not by pushing our exports. The actual method which will be adopted for increasing foreign investments will of course, in the absence of artificial restrictions, or considerations other than economic, depend upon the comparative prices in various markets. It is unlikely that a foreign railway would purchase in England the victuals required for feeding the navvies

employed on new construction, but it is possible that a large part of the rails might be purchased here.

It is impossible to indicate the exact manner in which British foreign investments are effected—to what extent they represent an increase of exports or a diminution of imports. Nor is it often possible to point to the precise commodities the export of which is rendered feasible by an extension of foreign investments, or the import of which tends to be retarded. A change in the amount of a country's foreign investments may be either a cause, or a result, of a change in the balance of trade.

When imports have been exceptionally heavy, merchants become eager to make payments abroad, and their competition drives up the price of bills. To protect the gold reserves, banks raise their discount rates, so that merchants are induced to curtail their demands. Thus the state of the money market depends largely upon the foreign exchanges. If the foreign exchanges are against London, therefore, new issues in London will be discouraged, while such foreign issues as occur are less likely to result in an export of British goods than at other times. For, with the foreign exchanges adverse, English prices are usually high relatively to foreign prices, until tight money begins to react on trade and industry. Then British goods tend to become cheaper, and are, therefore, more likely to be exported.

At the same time the state of the foreign exchanges affects the amount of foreign subscriptions to London prospectuses, and the inducement to perform arbitrage

transactions in securities between London and foreign financial centres. If foreigners can transfer money cheaply to England, it will pay them better to subscribe to prospectuses in London ; if drafts are dear, they will be less likely to do so. In the same way, if drafts on London are cheap, London brokers are more likely to purchase international securities in London and sell them abroad, since their profit will be enhanced when the money is transferred back to London. That there will be a profit is probable owing to the fact that dear money in London is likely to reduce the price of many securities in London, while cheaper money in foreign markets will tend to make securities dearer abroad. If the exchanges are favourable to London, the converse will of course apply : British investors are more likely to subscribe to foreign prospectuses, and the ownership of securities will be transferred from abroad by arbitrage transactions and otherwise.

This analysis serves to make clear the impossibility in many cases of tracing the exact manner in which British capital is exported. If the ownership of property has been transferred by foreigners to British inhabitants through arbitrage transactions, for example, all that can be said is that the transference is probably balanced by a payment to foreigners,[1] in some indefinite and undeterminable way, of a

[1] It may be noted that foreign purchasers of securities may keep them not in their own country, but abroad. Many European banks, which own American railroad securities, find it more convenient to deposit them in New York, where they can at once be pledged as collateral if it is desired to obtain money. It is said that the political anxiety in the summer of 1911 caused German banks to borrow $100,000,000 in this way, for the purpose of easing the monetary tension in Berlin.

corresponding value. No particular goods or services can be indicated which emanated from this country or were forgone by this country.

It is, nevertheless, possible to obtain some idea as to which branches of export particularly stimulate, or are stimulated by, new foreign investments, and which branches of import are especially restricted by the fact that some foreign investments are effected through orders to non-British producers.

In the middle decades of last century it was Lord Brassey's experience that when tenders for bridges, locomotives, or steel were invited from all nations, it was always English firms who supplied the greater part, generally the whole of the goods for delivery in Europe, India, or Australia.[1] It was also stated in the case of a certain Indian railway in 1857 that the expenditure in England was a little more than two-thirds of the whole capital, while somewhat less than one-third was spent in India. The expenditure in England was chiefly on iron and timber.[2] With the growth of industry all over the world the proportion of British foreign investments which take the form of exports from the United Kingdom has probably declined. There is, however, evidence to show that over a wide field of investment the amount of British goods is still very large. A few years ago, for example, it was estimated[3] that, out of £12,000,000 invested in South American railways, 33 per cent or

[1] Bowley, *England's Foreign Trade*, p. 90.

[2] Select Committee on East India Railways. Minutes of Evidence Q, 1914.

[3] Lord St. David's. Speech in the House of Lords, November 24, 1909.

£4,000,000 had gone abroad in the shape of materials (rails, locomotives, etc.) manufactured in the United Kingdom. Of the rest, 4 per cent went in the shape of materials manufactured abroad. An examination of the railroad materials imported by some of the principal countries in which British investors lay out their capital is also instructive. Consider first the case of Argentina, a country in which British railroad investments are now especially prominent. Although no close correlation exists either between London capital issues for Argentine railways or the mileage of railways constructed, and the imports of railway material from year to year, yet a comparison of the figures for the years 1901–11 indicates that, in general, imports of railway materials have increased with the growth of investment. Until 1909 the proportion of British equipment imported into Argentina was always over half the total, but in 1910 and 1911 the ratio fell sharply, owing largely to German competition.

Year.	Argentine Railway Issues in London.	Miles of Railway constructed.	Imports of Locomotives, Railway Materials, and Rails.	
			From U.K.	From U.K. and elsewhere.
1901	£4,465,000	214	£461,352	£793,272
1902	3,040,250	292	528,669	720,290
1903	732,500	638	718,148	1,018,402
1904	3,331,250	636	1,207,193	1,682,002
1905	18,698,910	158	1,485,094	2,558,816
1906	3,783,375	602	2,367,110	3,882,809
1907	8,842,750	865	3,364,451	5,614,793
1908	13,257,090	1053	1,962,924	3,181,671
1909	11,948,000	646	2,345,733	3,638,343
1910	10,815,000	1992	1,990,094	4,129,345
1911	10,025,000	2230	1,913,085	4,395,890

Well over half the imported locomotives, railway materials, and rails were, until 1910, derived from the United Kingdom; and as Argentina is not itself an important producer of many of these goods, it is evident that Great Britain provided a very large part of the equipment. It is of course not possible to say exactly, even in regard to the goods included in the above table, what amount represents capital actually raised in the United Kingdom, as it is possible that part of the capital subscribed in Argentina or elsewhere may have resulted in orders to British producers, while doubtless in 1910–11 British capital was partly represented by foreign goods. It is also certain that a portion of the materials imported must be intended to replace worn-out appliances. But there is a high degree of probability that a substantial part represents new British investments.

A similar table shows the importance to Indian Railway Companies of their imports of railway plant and rolling stock from the United Kingdom, which owns and subscribes the great bulk of the Indian Railway Companies' foreign issues. The railway plant and rolling stock imported by sea as Government stores are of greater value, but the places of origin are not distinguished. Nevertheless, as a very large proportion of Government stores is certainly derived from the United Kingdom,[1] columns are added to the

[1] In 1911–12 the capital outlay on railways, irrigation, etc., was £9,501,700, of which £5,082,700 was spent in England and £4,419,000 in India. *Vide* Appendix II. to *Interim Report* of the recent *Royal Commission on Indian Currency*, vol. i. (Cd. 7070) p. 71.

table below showing the total value of railway plant and rolling stock imported by sea as Government stores, the mileage of State lines opened for traffic in each year, and (for rough comparison) the annual increase of Indian Government liabilities in England :—

Year.	Indian Railway Company Issues in London.*	Miles of Line constructed by Companies.*	Imports of Railway Plant and Rolling Stock for Companies.		Total Government Imports of Railway Plant and Rolling Stock.	Miles of Government Line constructed.*	Increase of Indian Government Liabilities in England.
			From U.K.	From U.K. and elsewhere.			
	£		£	£	£		£
1901–2	300,000	215	928,711	1,028,386	2,366,440	398	+871,711
1902–3	3,033,800	208	1,048,289	1,074,481	2,499,015	357	−510,829
1903–4	750,000	208	812,722	934,643	2,823,359	818	−750,417
1904–5	1,790,000	166	838,001	939,772	2,803,843	443	−158,653
1905–6	2,113,000	222	981,122	1,081,745	3,410,855	508	+13,570,248
1906–7	100,000	261	2,611,752	2,772,260	2,889,682	541	+ 1,061,195
1907–8	2,200,000	276	4,656,597	4,800,550	1,791,081	637	+ 9,962,440
1908–9	6,894,200	193	4,745,709	4,946,600	3,012,991	373	+ 9,492,295
1909–10	3,183,900	265	3,251,473	3,627,064	1,966,756	649	+ 9,132,542
1910–11	3,100,000	426	2,528,984	2,830,221	1,293,802	183	+ 6,892,424
1911–12	800,000	383	2,584,423	2,957,970	1,679,971	357	−11,738

* For calendar years 1901–11.

The United Kingdom, it is evident, still supplies a very large share of the materials which represent new investments in Indian railways, as well as a great amount of the plant and rolling stock purchased out of income. The table shows broadly that imports of railway plant from the United Kingdom increased enormously in the later years of the period under review, and that these years also witnessed a marked growth of investment. It would also appear, from a comparison of the imports of railway materials from the United Kingdom with the total imports of such materials, that British producers have not been losing ground to oversea competitors.

If we turn to Australia and South Africa, which are also prominent fields for the investment of British capital, we seem to trace the existence of more powerful competition from other countries. In Australia, as in the other countries examined above, a vast increase in the value of imported railway equipment accompanied a wave of investment after 1907. But it will be seen from the table below that the proportion of imports derived from the United Kingdom has rather receded than advanced, while Australia probably also supplies a larger proportion of her own requirements :—

Year.	Australian Government Issues in London.	Miles of Government Railway Construction.	Imports of Iron and Steel Rails, etc.	
			From United Kingdom.	From United Kingdom and elsewhere.
1903	£720,000	520	£442,755	£494,588
1904	Nil	103	127,317	184,036
1905	3,341,000	251	110,624	206,091
1906	1,990,000	161	132,522	340,435
1907	970,000	303	562,610	628,931
1908	2,470,000	468	530,678	792,928
1909	9,221,900	415	436,872	803,160
1910	4,759,800	394	399,547	820,677
1911	1,950,000	612	499,629	1,079,928

Though Great Britain is far the most important external investor in Australia, her foothold as a supplier of capital goods is not secure. The United States has come to figure largely as a seller of railway materials to Australia ; in 1909 Canada sent a large consignment, and Belgium and Germany sent small quantities. In South Africa the position of British producers is even more precarious. Thither Germany

now sends more railway material than the United Kingdom, which appears largely to have lost its hold over the South African market. Very little British capital, however, has been invested in South African railways in the last few years.

Year.	South African Government Issues in London.	Miles of Government Railway constructed.	Imports of Railway Materials.	
			From United Kingdom.	From United Kingdom and elsewhere.
1906	Nil	487	£150,645	£185,292
1907	£4,838,400	497	140,831	221,112
1908	2,931,500	352	56,791	102,112
1909	Nil	79	82,961	172,526
1910	Nil	149	36,591	186,143
1911	Nil	506	41,920	171,674

The decline in the proportion of material derived from this country is very remarkable. In striking contrast with the figures in the above table, however, are those which relate to the South African mining industry. There the greater part of the machinery is supplied from the United Kingdom, although a large amount of the capital is owned not by British subjects, but by Frenchmen and Germans.

Year.	South African Mining Issues in London.	Imports of Mining Machinery into South Africa.	
		From United Kingdom.	From United Kingdom and elsewhere.
1906	£1,446,400	£467,465*	£712,495*
1907	248,800	598,823	802,263
1908	2,828,300	533,465	740,994
1909	4,340,700	706,010	1,001,717
1910	2,595,700	945,953	1,279,403
1911	3,883,000	659,562	947,283

* Excluding a small amount of buckets and tip trucks not distinguished till 1907.

The large proportion of these kinds of machinery which is derived from the United Kingdom is perhaps in harmony with a tendency for British producers to maintain their former predominance in the manufacture of some of the more highly finished instrumental goods, especially where there is a large home market. The operation of this tendency is seen perhaps at its strongest in the case of textile machinery, of which large quantities are supplied to a great many countries.

The last two countries whose imports of railway material will be examined are Canada and the United States. Both are fields to which an enormous flow of British capital has proceeded in recent years,[1] as is sufficiently indicated by the statistics of railway issues on the London money market. Neither, however, imports its railway materials to any large extent from the United Kingdom, and as the years go by less and less is imported from here. The United States is almost self-sufficient in producing its own railroad plant, and exports a great quantity in competition with the United Kingdom to South America, to South Africa, to Australia, and to Canada. Canada, in turn, has developed an important metallurgical industry, and is also able to supply a larger amount of the rails, locomotives, etc., which she requires for internal use. Unfortunately the trade statistics of both countries are unsatisfactory in that they do not show in an available form the amounts of railway

[1] At the turn of the century the United States showed signs of being able to provide sufficient capital for her own development, but in the last nine or ten years she has again imported a large quantity from Europe.

materials imported from the United Kingdom, but the figures below indicate substantially the small importance of these markets to the British producer of railroad materials :—

CANADA.

Year.	Railway Issues in London.	Miles of Railway constructed.	Imports of Iron and Steel Railway Bars and Rails.*	
			From United Kingdom.	Total.
1901	£1,152,600	659	£87,850	£665,984
1902	255,500	574	218,193	549,244
1903	4,065,650	274	388,400	851,213
1904	4,086,800	443	380,688	865,873
1905	11,520,000	1056	460,150	429,972
1906	6,873,500	866	131,853	239,434
1907	2,020,100	1099	46,311	373,573
1908	12,395,500	514	17,459	255,617
1909	8,060,500	1138	64,328†	159,496
1910	5,525,800	627	58,944†	279,675
1911	19,608,200	1893	15,024†	179,197

* Year to June 30.
† From countries other than the United States; mainly British.

The trade statistics of Canada and the United Kingdom prove that British shipments of other kinds of railroad materials are equally insignificant compared with the amount shipped from the United States, and the amount which must be produced in Canada itself. The figures for the United States show a similar result :—

[TABLE

UNITED STATES.

Year.	Railway Issues in London.	Miles of Railway constructed.	Imports of Iron and Steel Railway Bars.*	
			From United Kingdom.	From United Kingdom and elsewhere.
1901	Nil	3324	£5,015	£9,730
1902	£4,164,200	4965	2,718	74,290
1903	Nil	6169	63,798	573,279
1904	195,000	6690	760	238,107
1905	8,392,600	5084	3,216	77,595
1906	Nil	5565	135	46,075
1907	3,568,300	6188	138	26,787
1908	20,055,500	..	1,098	17,104
1909	6,735,800	3238	381	7,032
1910	32,174,300	5908	1,651	31,733
1911	15,773,900	4740	..	..

* Year to June 30.

Despite substantial capital issues on behalf of American railroads in the later years of the decade, the amount of materials which the United States draws from Great Britain has declined rather than advanced. Practically, it may be said, both Canada and the United States have ceased to take British railway materials, although large amounts of British capital are still being invested in their railways.

From the foregoing examination it appears that, in the case of railways at any rate, British foreign investments, over a wide portion of the globe, are very largely represented by orders to British manufacturers of railway materials and rolling stock.

It is very probable also that British investments in India, South America, Australia, and elsewhere are made directly in the form of other manufactured goods of common consumption, such as textiles,

required to clothe the labourers engaged upon works of construction. The extent to which such goods are exported as capital, however, cannot be definitely traced. But although British investments are represented by goods of British manufacture in many quarters of the world, there is reason to think that the extent to which this is the case has diminished and is diminishing. The United States and Canada now take almost insignificant quantities of railroad plant from Great Britain; but time was when North America imported from here almost the whole of the rails which she required,[1] making payment for them in bonds. Some other countries in which British investors build railways are pursuing a similar line of development, and the growth of manufacturing industries in many parts of the world means that British capital investments abroad are being more largely represented by orders to other than British manufacturers. It must, however, be remembered that the increase of foreign investments by Continental nations brings with it similar competition amongst manufacturers of capital goods, and British producers are, no doubt, able to secure some share in the orders.[2]

[1] Bogart, *Economic History of the United States*, p. 165.

[2] In France an express stipulation is often inserted in loan contracts between the banks and foreign Governments that the latter shall order part of the equipment which they require in France. It was recently proposed to render the insertion of such a provision compulsory. The following paragraph in the *Manchester Guardian* also indicates that the practice of specifying where the capital goods shall be purchased is not confined to France:—

"The Lower Austrian Discount Company has granted the Chinese Government a loan of £300,000, China undertaking to give the Poldihütte Cast Steel Works during the next ten years an order for tool steel, rifle barrels, and gun parts for an amount equal to that of the loan. The Poldihütte Works will establish a branch at Pekin."

But the effect wrought upon British producers of railway equipment by the development of competing industries elsewhere is seen by the fact that exports of railway plant from this country are actually smaller in value than a generation ago.

It is not possible to trace how far British foreign investment is bound up with an increase in the exports of other produce and manufactures from this country, and with an increase in the banking, shipping, and other services which are credited to this country. Theoretically, as we have seen, the extension of foreign investments may be accompanied either by a growth of exports, or by a contraction of imports; and the answer to the practical question what is now actually happening is left undecided. The case of British exports of railroad equipment, which has been considered above, is surrounded by special circumstances, in so far as these goods are heavy in proportion to their value, while British supplies of iron ore have fallen short, and the improvements and discoveries of recent years have assisted the iron industries in other countries much more than they have the British producers. But other industries which cater for the masses have also advanced rapidly in distant lands, and it is therefore probable that a larger proportion of the orders which represent British foreign investment are given to foreign producers, *e.g.* cotton, woollen, and boot manufacturers, and shipowners.

A process similar to that which has recently occurred in the United States and Canada took place

earlier on the continent of Europe where an influx of British capital appears at one time to have been represented largely by British manufactured equipment, such as rails, machinery, and locomotives. The growth of manufacturing industry made these countries rely less and less upon Great Britain for the cruder forms of instrumental goods, although their demand for the more specialised and highly finished British manufactures continued to increase.

Whatever causes have produced the growth of manufacturing industries abroad at the present time —whether it be the natural capacity and enterprise of the populations, or the encouragement of a tariff or bounty—the effect upon the *method* of foreign investment is the same. Exports of those commodities which are now manufactured in the foreign country are less than they would otherwise have been, and a similar check is given to the imports of those commodities which would have been sent in payment for these goods. The *amount* of foreign capital invested in a country, however, may be affected according as the growth of its industries is the result of one cause or another. Any policy which diminishes the national income of a country will probably lower the average real returns to capital in the country, and repel capital; but any policy which increases the national income will probably raise the average real returns on capital, and so attract capital.[1] This point will be further considered in the next chapter. Meanwhile a word may be said as to the effect of certain kinds of Government

[1] Pigou, *Protective and Preferential Import Duties*, p. 11.

action upon the method by which capital is sent abroad. Firstly, as to the effect of a tariff imposed upon imports into a country that exports capital. Such a tariff will tend, except in peculiar circumstances, to raise prices to the consumer, who will have to pay more for the goods than would otherwise be the case. But the effect may not stop there. So far as the tax affects adversely a raw material of industry which is able to escape a part or the whole of the burden by diminished supply and increased price, the cost of production in the country which imposes the tax will tend to rise, and the cost *inter alia* of goods for export is likely to go up. The tax, however, if levied upon particular goods, and if wisely spent so as to stimulate the efficiency of particular factors of production, or the amount supplied, may be supposed actually to lower the cost of production, or at any rate to leave it unaffected. The effect of the tariff upon the method of foreign investment will vary according as one or another result be produced. If the price of exports be raised, a premium is likely to be placed upon the manufacture abroad of those goods which represent investments, for in this case £100 of capital signifies a smaller amount of capital goods than would otherwise be the case. It is possible, however, that the price of some goods will show a higher relative rise than that of others. In this case, foreign countries will be likely to increase their purchases of the goods which have risen relatively little, at the expense of those which have risen more; and if the goods which have risen relatively little in price are the capital

goods, the export of these may be encouraged in comparison with the non-capital goods.

The effect of an export duty imposed by the country which invests capital abroad will be similar. A general tax on exports would, except perhaps in a few special cases, fall in the long run largely upon the consumers of the goods, who would tend to buy less, and to order the capital goods, which they would have obtained in the investing country, elsewhere. But so far as the price of some commodities is raised more than that of others, those who demand goods for export will devote a larger share of their attention to the class which has risen least. The export duties will also tend, like import duties which raise the price of exports, to check imports into the investing country. For the imports which would have been sent to pay for exports will be diverted elsewhere, to pay for the goods which are now ordered in some other country. The effects of an import and of an export duty imposed by the country which invests are therefore similar, in so far as both tend to raise the price of exports, and cause capital and other goods to be ordered elsewhere.

The consequences which are likely to follow the imposition of import duties in the country which imports capital have already been examined. An export tax, so far as it injured domestic producers, would in like manner tend to encourage the domestic production of goods hitherto imported, if it reduced profits in "export" industries below the normal rate. If the burden was shifted on to the foreign

consumers, its effect, so far as appreciable, would be similar to that of an import duty imposed by the country which took the goods. The whole question, however, is closely bound up with the problem of the *amount* of capital flowing abroad, and the amount of interest that has to be sent back as payment for the use of this capital. This matter will be considered further in the course of the next chapter.

CHAPTER II

CAUSES OF FOREIGN INVESTMENT

At the beginning of the preceding chapter, foreign investments were described as that part of a country's property, situated abroad, from which its owners expect to derive an income. It is clear that the income which people expect to derive from capital may be of different kinds. Thus the ordinary individual investor will take into account almost exclusively the direct money income which may be derived from his capital. A large investor may take into account also an indirect money income caused by the fact that a particular investment of capital increases the income from other investments, by reducing the cost of producing some other commodity, or by increasing the demand for that commodity. Thus the branch line of a railway may, if considered separately, be unremunerative; but if considered in conjunction with the main line, it may be remunerative. There are also incomes of a non-pecuniary kind which may affect the way in which investors lay out their capital. The nature of the operation which the capital is intended to perform may induce capitalists

to invest or to refrain from investing in certain directions. For example, a garden suburb may appeal successfully to the semi-charitable investor and persuade him to subscribe capital at a rate of interest below the normal. On the other hand, an opening for investment which offends the moral or ethical sentiments of a large number of investors may well find it impossible to raise capital except at a rate of interest above the normal. Thus a company which exploited native labour in the Belgian Congo would no doubt find it difficult to raise capital in this country, while even breweries are avoided "on principle" by a considerable class of investors. Political preferences probably also possess some force, and it seems likely that British investors, on the whole, are willing to accept a lower yield on investments in the United Kingdom than elsewhere (given similar securities), and that they prefer British Colonial Investments to investments in foreign countries.

Political considerations sometimes also weigh with Governments in inducing them to lay out capital in particular ways. The income which the British Government anticipated when it purchased an important holding in the Suez Canal was not merely a pecuniary income, but also an income of political prestige and power, arising from the fact that this country would have a voice in the control of the nearest sea route to India. The expenditure of the United States Government on the Panama Canal is an even more striking example, for in this case the direct

money return cannot pay the interest on the outlay for many years to come.

But economic considerations play, on the whole, a predominant part in determining the direction of investment. The great bulk of investors would admit that they were influenced in their choice almost exclusively by "business" considerations, which practically means that they try to obtain the largest possible material advantage for themselves, their family, and, in a less degree, their friends and acquaintances. The evils connected with particular employments of capital in distant lands exercise but little deterrent power upon the course of investment: the absentee investor is but little troubled in his conscience by such vague rumours as force themselves upon his attention, and it is only in flagrant cases that the abuses become notorious. Nor does the sentimental consideration of the locality of an investment operate —directly, at any rate—in any large measure. No doubt many British investors would prefer, other things being equal, to invest their capital in the United Kingdom, while they would also prefer investing it in the Colonies to investing it in foreign countries. But it does not appear that this is a very strong force. It is true that there is still a considerable margin between the price of some British securities and of similar foreign and colonial securities, the latter being cheaper;[1] but this is due not so much to sentimental considerations, as to the ignorance which

[1] Cf. R. A. Lehfeldt, "The Rate of Interest on British and Foreign Investments," *Statistical Journal*, January 1913.

still prevails among investors about the exact risks attached to investments abroad, and the trouble of selecting the particular type of investment required. Until recent years there were few foreign or colonial issues which could compare for safety with the best securities at home, but so rapid has been the improvement in financial stability abroad, that a normal adjustment of values to risks as viewed by competent judges has probably not yet come about. There appears to be still a large class of investors which, inadequately informed as to foreign and colonial securities, and unwilling to take the trouble to find out about them, continues to invest in British securities with a low yield but of no better standing. More acute and well-informed capitalists, therefore, receive an additional payment as remuneration for their skill in selecting investments. This payment is of course identical with that received by an ignorant investor, who invests in the same security, and takes the " risk " of loss.

The acquisition of knowledge about fields and openings for investment has a cost just as definite for any individual or group as any other cost. The investor must be paid for taking trouble in the management of his capital. The greater the difficulty of obtaining knowledge about investments the greater the cost, and the greater, therefore, the return that must be paid to the capitalist in the long run. In studying the flow of capital from a particular area, over the world, it is necessary, therefore, to consider how the cost of obtaining knowledge about financial

affairs is changing, and how it varies in regard to different parts of the world and different economic activities.

It has been suggested above that British investors can most easily obtain knowledge about home investments, while investments abroad are more difficult to comprehend. This is due not only to the cost of transport and communication, which prevents inhabitants of one part of the world from going to see other countries, and from obtaining an accurate idea of facts and possibilities in distant lands, but also to the barriers of language and race. A common language and kindred institutions place the British investor in a position of great advantage for investing in the British Colonies and in the United States. There is a very wide public which follows with intelligent interest the progress and development of these countries, and has a fairly intimate acquaintance with their geography and economic problems. But the difficulties of studying South America, Mexico, Russia, China, or even India, are to the Englishman very much more formidable. Consequently we may suppose that the cost of obtaining knowledge is greater in the case of the latter, and that British capital is—other things being equal—less ready to go to those quarters of the world. During speculative manias, it is true, the absence of adequate knowledge may actually increase the amount of capital flowing in a particular direction; the uncertainty in itself proves a strong incentive to investment under the unscrupulous manipulations of artful company pro-

moters. The same is true of any unsound concern which preys upon the ignorance of investors. Consequently the discovery of a gold mine, or the flotation of an ambitious and well-advertised scheme in a little-known country may, for a time attract more capital into the country than would have gone in if investors had been more fully informed as to the circumstances and prospects. A mania which had so little real foundation as the South American mining boom in 1824-25 might have been prevented if a more widespread knowledge of the actual conditions had been able to show in its true colours the alluring spectacle conjured up by the magic word *gold*. In the middle of the nineteenth century Porter [1] stated that the general impression about foreign investments was that the losses had much exceeded the gains; and if this view was correct, a more accurate knowledge of prospects might have curtailed the export of capital from the United Kingdom, though, on the other hand, it might merely have altered the direction of investment. Since Porter wrote, however, there has ceased to be any doubt that the gains from foreign investment have greatly exceeded the losses. It is now always likely that a country which has natural resources, capable of serious development, will attract more capital from abroad, if its economic and political circumstances are well known to investors in other countries, than if they are little known.

Considerations similar to those which differentiate between countries in regard to the cost of

[1] *Progress of the Nation*, p. 634.

obtaining knowledge apply to different employments of capital. It is easier to obtain information as to investments for some purposes than for others: investors can readily satisfy themselves as to the nature and extent of the risks which they must run in one investment, but they cannot do so in others. The question is partly connected with the amount of the capital which is lumped together. A large aggregate capital advertises its own safety or unsafety at less cost than a small capital, while, in addition, other risks or uncertainties, connected with the marketing of holdings, are likewise lessened where the total amount of securities of like kind is large. But besides this, some employments of capital have more stable prospects than others, as is seen in the differentiation of rights attaching to debentures, preference stock and ordinary shares in the same business, or between the comparatively stable and non-fluctuating business of, say, a waterworks company, and that of many industrial concerns. The distant investor can more easily obtain knowledge of, and follow the circumstances which affect, larger and more stable issues, than those that influence smaller and less stable issues. In Canada, it is said, the methods of investing British and American capital are on an entirely different basis, and the line of demarcation between them is quite distinct. Americans "come into Canada and buy a lumber proposition, a mine, a commercial enterprise, or start a branch of some of their own enterprises in one of the provinces. In these cases they go to the country themselves and look after the

business in which they are interested."[1] British investors, on the other hand, remain quite satisfied if their moderate interest and dividends are forthcoming at the proper time, and their loans are met at maturity. There has in recent years been an extensive movement of British capital into Canadian industrial enterprises, but even here there is a distinction between British and American capital investments, as in mines, which have frequently been first developed by Americans, and subsequently sold to British buyers. The American, and *a fortiori* the Canadian, who is on the spot, and has an unrivalled knowledge of local circumstances, can seize opportunities more quickly than the British investor, who is obliged in some measure to fill up gaps in the more stable and less lucrative parts of the industrial organism. British investors supply especially capital in bulk for railway construction, Government and municipal loans, etc., which the Canadian investor, with his more slender resources, is unable to provide.

This principle frequently operates in such a manner that there is a net advantage in a country exporting capital, although by so doing it raises the rate of interest at home, and induces capital to come in from other countries. The United States has important investments in Canada, in Mexico, and in Central and South America. At the same time the United States itself is one of the most important fields of European investment. Another instance is that of Germany, which, though a large borrowing country

[1] F. W. Field, *Capital Investments in Canada*, p. 20.

during the greater part of the nineteenth century, nevertheless supplied important sums of capital for use in Russia, Austria, and South-Eastern Europe. This phenomenon is analogous to that noticed by Professor Pigou in the case of migrating labourers.[1] Professor Pigou quotes an example from mediaeval France: "If Lyons had need of workmen, it called upon Chalon sur Saône which supplied them. The void made at Chalon was filled by men drawn from Auxerre. Auxerre, finding that less work was offered than was required, called to its aid Sens, which at need fell back upon Paris." Professor Pigou points out that not only the subjective burden of leaving one's home and settling elsewhere, but also the cost of movement from one occupation to another, may be greater if a single transference is required than if the transference be made up of a number of small movements.

The same tendency may apply in the case of capital. The price which would have to be paid to induce British capital to enter countries or occupations, for the successful conduct of which highly specialised knowledge is required, may be greater than the sum of the costs involved in sending the capital into another country or occupation, and transferring capital thence into the desired country or occupation. Incidentally it may be observed that a net saving may result from two countries being creditors to one another, provided the investors in each supply capital for those occupations of which they have a specialised

[1] *Wealth and Welfare*, p. 113.

knowledge, and in which consequently the risks and uncertainties are lessened. Thus American capital was associated with the London tube railways, some American capitalists being well acquainted with the problem of urban growth and transit. By this means the capital was probably obtained more cheaply than it could have been obtained in the United Kingdom. The association of Dutch and Continental financiers with projects for beet-sugar factories in Great Britain is no doubt due to the same causes.[1]

Every increase in the knowledge that capitalists possess in regard to economic and financial affairs, or in the information to which they have access, must tend to cheapen the price of capital for investments that come to be recognised as really sound, by reducing the psychological element of uncertainty which hinders investment. The more British investors are familiar with the conditions prevailing abroad, the more they will place abroad in the long run in investments of the sounder type. Every development of trade or cheapening of communications is bound to tell sooner or later. Moreover, the greater the amount of capital already invested abroad, the easier it is to obtain information relevant to investments abroad, and the smaller will tend to be the additional remuneration, above the rate prevailing for similar investments at home, that will have to be paid to attract capital into the foreign country.

The business of supplying information will become

[1] Possibly the economies anticipated by certain Canadian companies with British capital operating in Mexico and South America may be of a similar character. But the advantage of such a plan is not obvious.

organised; dealers in the capital market, and organs of the press, will devote special attention to studying the country which is absorbing the capital; and the general body of investors will be able at a smaller cost than before to gain access to specialised information and expert advice. Financial news, once it has been obtained, can be spread easily and cheaply among investors. It may be contended, however, that such information and advice are not always either accurate or disinterested; and the objection is obviously true. In spite of legislative enactments, such as those which in many countries regulate the contents of prospectuses, and punish various forms of fraud, it has not been possible entirely to stamp out the scandals associated with company promotion and finance. These deceptions are of course similar in their nature to those practised in the commodity markets, where dealers attempt to palm off inferior wares upon ill-informed customers. In the capital market, as in the commodity market, moreover, deception is rendered more difficult by standardisation of the articles dealt in, as well as by increased wariness on the part of those upon whom deception has once been practised. A growth in the amount of very large issues of capital, the soundness or unsoundness of which cannot easily be concealed, has probably tended to render deception more difficult. But the volume of small lock-up securities has also grown enormously, and has thus tended to increase the extent to which investors may be deceived. It must be borne in mind, however, that the growth of small

public issues of securities has been to some extent at the expense of private non-joint-stock investment, and it is not clear that the possibility of fraud is less in the latter than in the former. The growth of the joint-stock principle all over the world, nevertheless, as we shall see later, has greatly facilitated foreign investment, and it is therefore probable that the growth of public issues of small amount has tended to increase the danger of deception.

The possibility of fraud depends ultimately on the existence of persons who are willing to deceive, and of persons who are capable of being deceived. The world abounds in scoundrels, ever ready to make the most of opportunities. The number of persons who can be easily beguiled is also large, but people are not so simple as they were. The spread of education and a wider knowledge and understanding about economic matters have certainly rendered financial deception more difficult. The cultivation of general judgment and knowledge have also made people better able to weigh the value of particular items of information which are placed before them. But the facts on which they have to express an opinion are more numerous and more intricate; and a little knowledge is proverbially a dangerous thing.

In discussing how far those who possess capital are less easily deceived than formerly, moreover, it is necessary to consider the distribution of the capital among various types of owners. The tendency of recent years in the United Kingdom, and in Western Europe generally, has been towards an increase in

the number of individual owners of capital. From the point of view of economical management in the present, this has probably been a bad thing, since the smaller and newer capitalists are likely to possess less experience in financial affairs than other capitalists, and are therefore, perhaps, more likely to be deceived in their judgment of suitable investments. Even if the spirit of caution is very strongly developed in them they will be apt to err in selecting their securities. If wisdom be added to caution they are likely to invest in securities of well-known reputation in their own country. Thus it has been said that the French investor begins by depositing his money in a savings bank. He then buys French Rentes; then French railway debentures, and French railway shares; and only after that does he begin, generally speaking, to invest in foreign securities.[1]

Small investors stand at a disadvantage compared with large investors, in more ways than one. Detailed knowledge can be used over and over again, and the wealthy investor, therefore, is able to spread the cost of obtaining special knowledge about particular investments in particular countries over his whole capital. It may thus pay him to invest in more out-of-the-way securities than are expedient in the case of the poorer capitalist.[2] On the other hand, the latter

[1] Neymarck, *Finances Contemporaines*, vol. vii. p. 185.

[2] Mr. G. E. May, in the *Journal of the Institute of Actuaries* (April 1912, p. 140), quotes an interesting example of such an independent investigation: "One of the larger American Offices was approached in regard to the purchase of a block of bonds of a railway in the United States. After investigation, the finance committee decided that the proposition seemed a sound one according to the then financial state of the railway, but they wished to assure themselves not only that the line itself was in good condition, but

receives a bigger inducement to take trouble in his investments, by reason of the higher value of money to him. The wealthy man (or organisation) enjoys another advantage: he can afford to take bigger risks in individual investments, because he can spread his money over a large number of securities. Not to put all his eggs in one basket, unless that basket is very closely watched and guarded, is a first canon of the wise investor; but it is one which is more easily observed by the investor of some considerable means than by the poor investor. Nevertheless, an increase in the number of securities of small denominations has enabled the small man also to divide up his capital among a larger number of investments. Further, the enormous development of financial and trust companies, of insurance funds, etc., enables the poor man to gain indirectly some of the advantages open directly only to the rich.

The broad lines on which risks may be spread are diversity of employment, and geographical distribution of investments, the purpose being to avoid placing all the capital in investments subject to the same adverse influences, or to place them in investments

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that the future of the undertaking was likely to be prosperous, thus tending to the increased security of the bonds in question. They therefore instructed certain experts to make an examination of the line and to report thereon. . . . A complete examination of the undertaking was carried out, and since the experts in their report stated that the line was in excellent condition, and that in their opinion there was every prospect of increased prosperity in the future, the Company took a large block of the bonds." Such a costly investigation could only be carried out where the amount which it was contemplated to invest was large—in the above case it was $1,000,000. Mr. May, however, suggests that the application of the principle might be extended by co-operation among insurance offices. This would also hold good for other large investors.

on which the chief possible influences would exert opposite effects. If the investments are carefully selected, such a scheme of insurance may result in a return above that usually obtained on "safe" investments;[1] while, taking everything together, the danger of loss may be no greater in the one case than in the other. On the other hand, the investor who adopts such a policy is apt to sacrifice specialised knowledge about a particular class of investments in a particular area, in favour of securities as to the individual prospects of which he may know little. Nor is it possible to eliminate all the factors that affect the whole security market, or to bring it about that in every case a loss shall be compensated by a gain. Cyclical depressions of trade tend to influence every country and every market more or less at the same time. The capital value of the securities has to be taken into account as well as the yield, but it is impossible fully to guard against a general rise in the rate of interest. It would seem that the investments should be made in securities of large aggregate amount, so as to obtain a free market; and that these securities should be dealt in on different markets so as to avoid as far as possible those influences which operate in only one market, or more

[1] Writing of Insurance Companies' investments, Mr. G. E. May (*Journal of the Institute of Actuaries*, April 1912) says: "On broad grounds we may assume that the principle of the extension of investments has been financially successful, for it would appear to be mainly owing to this practice that the average rate of interest was kept at so satisfactory a figure during the years of falling rates. Further, the troubles arising from the recent heavy fall in prices of securities would have been much greater had the old practice continued, for then the investments would have been mainly confined to high-class Home Securities in which the decline has been most marked."

severely in one market than in another. An intricate balancing of forces such as this would entail cannot be fully accomplished in practice.

At this point it will be well to sum up the considerations, discussed in the present chapter, in their bearing upon the amount of capital which a country will invest abroad. The question how much capital a country invests abroad, and how much at home, obviously depends upon the relative attractiveness of different fields of investment, and, generally speaking, it depends mainly upon economic considerations. Capital sent abroad cannot, therefore, necessarily be regarded as surplus capital which cannot trench upon the supplies of capital invested at home. On the contrary, the export of capital will tend to raise the rate of interest at home, unless it happens that the capital would not have been accumulated merely for investment at home. It may well be doubted whether the whole £3,500,000,000, or thereabout, of British capital invested abroad would be invested at home, even if its withdrawal from abroad did not indirectly diminish the demand for capital in the United Kingdom. The rate of interest in this country, it may be supposed, would be lowered to such a point that a more or less large part of the capital would be consumed.

The question of the relative attractiveness of different fields of investment, it has been shown, is not a simple one. Neither investments nor investors are made to pattern. In some openings for capital the uncertainty which an investor incurs may be great, even to the best informed: among investors

the taste for bearing uncertainty may vary quite independently of the extent of their knowledge. But as the extent of uncertainty attached by an investor to a particular investment is partly dependent upon distance, which checks the spread of accurate knowledge, and tends, on the whole, to make capitalists take a less favourable view of distant investments than if they could discriminate more precisely, owners of capital are *pro tanto* more likely to invest their capital near home than to send it farther afield. They are more likely to invest in kindred countries than in foreign countries; and they are more likely, other things equal, to invest in their own trade, about which they possess special information, than in a trade with which they are unacquainted. The principle of spreading risks cuts across these lines of investment by making particular openings for capital attractive as part of a general scheme, though they might not be attractive in isolation. Even here, however, care in the selection of securities, and skill in the balancing of risks, are requisite for assured success.

Hitherto we have regarded the flow of capital available for investment, and the strength and character of the demand in particular countries and employments, as predetermined. The supply of, and the demand for, capital, however, are affected in innumerable ways by every kind of influence. The character and capacity of the people, the nature of their institutions, the extent and productivity of the land, and the peculiarities of the climate, all have their bearing upon the question. But while no useful

purpose would be served in discussing the matter *ab initio* and in the abstract, it may be worth while to consider the effect of certain kinds of forces upon foreign investment, and to observe how the export of capital may be checked or stimulated.

Any factor which reduces the real national income of a country will tend to diminish the amount saved, unless the distribution is altered in such a way that more goes to classes that save, and less to classes that do not save. In that case a diminution of the national income might coincide with increased saving, or an enhancement of the national income might coincide with diminished saving. A fall of prices would benefit those who had lent money at fixed interest in the past, and would to that extent benefit savers. On the other hand, borrowers at fixed interest would be injured; and as some borrowers are also lenders, the net effect to them of falling prices would be indeterminate. Some classes might gain as wage-earners, and be enabled in this way to increase their savings, although they lost in some other capacity, say as owners of securities without a fixed rate of interest. The effect of rising or falling prices upon saving, apart from any influence which may be exerted upon the *amount* of the national income, cannot therefore be ascertained *a priori*. It may, nevertheless, be the case that a change of prices has an important bearing on the quantity of accumulation. Prices and the rate of interest to some extent move together, and in business concerns it appears that when prices are rising profits are high, and a larger

proportion of the net earnings is carried to reserve than when prices and profits are low. Figures published in the *Economist*, so far as they go, bear this out for industrial companies :—

Company Reports appearing in Year	Number of Companies.	Aggregate Net Profits.	Amount carried to Reserve, etc.	Proportion of Reserve to Net Profits.
				Per cent.
1907	250	£14,182,025	£2,955,949	20·9
1908	254	14,480,523	2,415,878	16·7
1909	775	43,335,338	8,696,477	20·1
1910	775	47,523,000	11,668,000	24·5
1911	774	52,877,668	14,457,875	27·3
1912	867	60,207,109	14,939,627	25·3
1913	933	70,510,414	20,036,220	28·7

The steady growth in the proportion of reserve to net profits after the depression of 1908 corresponds with a steady increase of business prosperity. The slight set-back in 1912 may well have been occasioned by the losses due to the coal strike.

In addition to increasing the capacity of individuals and businesses to save, it is generally supposed that a rise in the rate of interest stimulates saving by affording on the whole a stronger inducement to save, in spite of the fact that certain classes of persons may not be influenced at all, or may decide to save a smaller capital sum than they would otherwise have saved, obtaining, nevertheless, the same annual income. In other words, an increased demand for capital tends to call forth an increased supply. If this is so, it is clear that any injury inflicted either on the sources of saving, or on the demand for capital, will reduce the amount accumulated.

The effect of a given diminution in the supply of

new capital accumulated upon the proportion invested abroad will vary according as the foreign demand is more or less elastic than the home demand. If the rise in the rate of interest caused by a contraction of the supply of capital diminishes the foreign demand in a greater proportion than the home demand, a larger proportion of the diminished supply of capital will be invested at home. The converse will be true if the opposite is the case. The answer to the question depends partly upon whether the cause which is diminishing the supply of capital is operative all over the world or not. If it is, it is not clear that the demand abroad for the lessened supply of British capital is more elastic than the demand at home. On the contrary, the development of new countries, with a rapidly growing population, can only be accomplished with the assistance of large supplies of capital, much of which must be borrowed whatever the rate of interest. The requirements of old and highly developed countries for new capital appear less urgent, and the elasticity of the demand seems to be greater. Over long periods of time it would of course be necessary to take into account not only the elasticity of the demand for floating capital, but also that for capital already invested. A large part of this might in course of time be withdrawn from investment and either consumed or invested elsewhere. If this were done to a considerable extent, the home demand might also become inelastic.

The particular factor causing a diminution in the supply of capital, however, may affect, not the whole

world, but merely a single country. If that is the case, the foreign demand for the capital of that country is likely to be elastic, since a slight rise in the rate of interest will induce foreign borrowers to resort elsewhere. If the London market is unfavourable, they will sound Paris, or Amsterdam, or Berlin, and attempt to obtain money more cheaply. The home demand is also likely, as we have seen, to be elastic, and the net result of a contraction in the rate of accumulation in one country will thus be a very small rise in the level of interest. The elasticity of the foreign demand for British capital will of course depend partly on the capacity of the alternative sources from which capital may be obtained. Diminished saving in the United Kingdom will affect borrowers less at the present time than it might have done in the middle of last century. The elasticity of the demand at home will depend upon a similar consideration; but it is likely to have less weight, because the economic advantages of using domestic capital will probably in most cases be considerable.

The increase in the demand for capital in recent years, which has caused a steady rise in the rate of interest, has come chiefly from new countries where increased stability and security have reduced uncertainty and the difficulty of acquiring knowledge. The yield on many foreign securities has consequently not risen in anything like the same proportions as the yield on Consols: indeed in many cases the yield on foreign securities has declined; and it is doubtful whether, on the whole, the yield on foreign securities

chiefly held by British investors, has risen much in recent years.[1] The yield on the best British, Continental, and other investments, however, has greatly increased, and the rise in the rate of interest has caused widespread alarm; so much so that measures have been discussed for keeping down the price of capital for home investment in countries which export capital. We may note a few restrictions which have, or might have, or are alleged to have, this effect.

The most obvious and radical measure would be the definite prohibition of foreign investment, combined with penalties on those who were discovered to infringe the law. Such a provision, so far as it effectively deterred the inhabitants of a country from investing abroad, would of course tend to raise the rate of interest in foreign countries. The rate of interest on home investments would at the same time tend to fall, unless saving were checked to such a point that people preferred to consume such portion of their income as was unable to obtain the rate to which they had been accustomed; or unless they resorted to hoarding.

Any fall in the rate of interest within the country, relatively to the rate prevailing outside, would encourage investors elsewhere who had invested in the country to withdraw their capital. A motive would also be supplied for owners of capital to migrate from the country which imposed the restriction on foreign investment. A rigid prohibition of foreign invest-

[1] Some interesting figures bearing on this point are contained in an article on "The Depreciation of British Home Investments" in the *Economic Journal* of June 1912.

ment, however, is not a question of practical politics in any large investing country, for it would be practically impossible to enforce; and any attempt would cause an upheaval whose effects would be far worse than any evil which it was sought to remove. Actual and proposed measures for stopping foreign investment rarely if ever go farther than to put hindrances in the way, either by regulation of new issues of securities, or by differential taxation. Thus on the Paris Bourse the listing of any security is controlled by the Government, and foreign Government loans which it is proposed to quote have to pass the scrutiny not only of the Ministry of Finance, but also of the Ministry of Foreign Affairs. Permission may be withheld without any cause being assigned, and is withheld when it is considered that French political interests would be injured by facilitating a loan, or when the security offered is considered doubtful. For quotation on the *Coulisse*[1] official approval is not definitely required, but it is usually requested.[2] Minute regulations also exist as to the conditions to be fulfilled by foreign companies which desire to trade or to have their securities quoted in France.

Differential restrictions and regulations as to the quoting of foreign issues on the stock exchanges undoubtedly tend to discourage foreign investment, but their efficacy is limited by the fact that alternative avenues are open for the purchase and sale of securities. Transactions may be diverted to foreign stock

[1] *I.e.* the unofficial market, or "Kerb."

[2] *North American Review*, 1909. Article on "Sale of American Securities in France," by F. D. Pavey.

exchanges where dealing is unfettered, and it is believed that a considerable amount of French business passes through the hands of Brussels and London brokers; while many French investors deal not with the stock exchanges, but with the banks and credit establishments. An attempt has recently been contemplated in France to hinder foreign investment by regulating such business more closely than at present; but this is clearly a difficult policy to carry out.[1]

On the other hand, it is curious to note that the French law until a few years ago actually encouraged investment in foreign Government securities, by exempting them from the stamp duty and the transmission duty which are payable upon the securities of companies, and indeed upon all other securities, French and foreign, with the exception of French Government and Colonial issues.[2] This provision is

[1] The following paragraph in the *Morning Post* of December 30, 1912, indicates the lines of this policy:—

"M. Briand, Minister of Justice, has ordered an inquiry to be opened into the methods adopted by foreign companies which organise financial issues in France. This inquiry is the natural consequence of the promise given by M. Briand during the debate on the Rochette affair that he would take measures to protect the savings of France, and to prevent these savings being drained away into foreign countries without good security. It appears that the law of 1907 providing that a declaration must be officially registered, and an announcement inserted in the supplement of the *Journal Officiel*, whenever stocks or shares are offered for sale in France, is frequently violated. To save the expenses entailed by these formalities, certain financiers, instead of offering shares for sale in France, have merely informed their clients, through offices in Paris, that these shares are offered for sale in some foreign town or other. It is announced that proceedings are to be taken against an English firm, which is alleged to have sent circulars concerning a foreign stock to French investors. As the principals of the firm are domiciled out of France, action can only be taken against their representatives in Paris." The English agents were subsequently convicted.

[2] Boucard et Jèze, *Éléments de la science des finances et de la législation financière française*, p. 389. For the history of the fiscal treatment of foreign securities in France, see also Jèze, *Cours élémentaire de la science des finances*, pp. 893 *seq.*

said to have been due to the desire of the French Government in 1872 to attract foreign Government loans to the French market, so as to restore the activity and prosperity of the Bourse, and to enable the Government to pay part of the war indemnity in bonds. At the present time foreign Government securities are exempt from the income and transmission duties and from the lottery tax levied upon other securities, but the stamp duty, which is reckoned upon the nominal value of the bond, has been successively raised from 1 per cent to 2 per cent in 1907, and to 3 per cent in 1913. Thus investment in foreign Government loans is no longer artificially favoured by taxation. Another encouragement to foreign investment was said to be derived from the fact that many foreign securities escaped the tax on income from bonds and stocks. According to figures published by the Ministry of Finance in 1894, only 46 per cent of the total French holdings of securities paid the tax; and 61,000,000 fr. out of the total revenue of 67,000,000 fr. was derived from home investments. It was estimated that (including French Rentes which are exempt from the tax), of a total income from securities amounting to 2400 million francs, no less than 1800 million francs paid no tax. This wholesale evasion of taxation by owners of foreign securities, however, has since been checked by more drastic legislation. Another fiscal advantage which foreign companies in France enjoy is that while French companies are taxed on the basis of their whole capital, foreign concerns are only

taxed in proportion to their capital circulating in France.[1]

A differential income tax on foreign investments has sometimes been advocated in the United Kingdom as a method of cheapening capital for home investment.[2] Obviously such a plan would give domestic employments a preference; and perhaps the difficulties of collection would not prove insuperable. Companies carrying on business partly in the United Kingdom and partly abroad might be taxed upon the basis of the estimated average capital or income attributable to their foreign operations; and if income tax were deducted at the source, as at present, it would appear not to be difficult to levy the tax. A more effective method, perhaps, would be to raise the income tax all round, and to allow an abatement to those who proved that their capital had been employed in the United Kingdom. It must be recollected, however, that additional taxation would be likely to increase the evasion that now exists, by inducing owners of capital to emigrate, or by encouraging them to let their capital lie abroad and accumulate there beyond the pale of the British tax. Such income, according to a decision of Lord Herschell, is not legally taxable.[3] A differential tax upon the capital sum invested abroad would have a similar effect. An impost of this kind is said to have been

[1] Greenwood, *Foreign Stock Exchanges and Foreign Company Laws*, p. 58.

[2] Cf. an article on "Taxation of Foreign Investments," by F. W. Pethick Lawrence, *Contemporary Review*, 1904.

[3] Murray and Carter, *A Guide to Income Tax Practice*, 6th edition, pp. 75-79.

levied by Holland between 1824 and 1859, when 50 per cent was tacked on to the value of foreign securities for the purpose of calculating estate duties.[1]

In regard to the British income tax it may be pointed out that the assessment of income from abroad may in itself amount to differentiation against the foreign source, since the income may already have been taxed in the foreign country where it was obtained. Thus the pensions of retired Indian officers remitted to the United Kingdom are chargeable, although they have already been taxed in India.[2] A further consideration is that the British income tax is not always levied upon profits. Under Schedule D the tax may be assessed on the average amount actually received in the United Kingdom "in respect of possessions in the British plantations of America, or in any other of His Majesty's dominions out of the United Kingdom, and foreign possessions."[3] Thus a person had to pay income tax on his share of a sum of £350,000 received from abroad in respect of the proceeds of the sale of the Odessa Waterworks, which company was formed about 1870, and has never paid any dividend.[4] Such a method of assessment, by penalising the withdrawal of capital from abroad, tends indirectly to check the export of capital.

A measure which probably has some effect in sustaining the price of particular kinds of securities is the law restricting trustees to a certain class of stocks, unless the terms of the trust deed specifically

[1] *Economist*, February 15, 1913.
[2] Murray and Carter, *A Guide to Income Tax Practice*, p. 96.
[3] *Ibid.* p. 51.
[4] *Ibid.* p. 95.

provide that these rules are not to apply. Until 1859 British Government 3 per cent annuities were alone open to trustees; but the list was then gradually extended so as to include many other securities in the United Kingdom, and later Indian and Colonial securities. Probably the effect of the Trustee Acts upon the price of these securities is not now great, for the aggregate amount of the stocks in which investment is permitted is enormous, and trustee purchases, if they raised prices appreciably, would cause sales by other holders. The Post Office Savings Bank is another very large purchaser of Consols, and it would appear that that institution has a considerable influence in sustaining the credit of the British Government.

The effect of any Government action must be considered in its relation first to the supply of capital seeking investment at home and abroad, and second to the demand for capital. As we have seen, the supply or flow of new capital belonging to the inhabitants of a country, say the United Kingdom, will probably tend to increase if Government action causes a growth of the national income, and to fall off if it causes a decline of the national income. Thus protective customs duties levied upon imports or upon exports will increase or diminish accumulation according as they assist or impede the output of goods and services. Although some taxes may *per se* stimulate production, most taxes undoubtedly hamper commerce and industry to a greater or less extent. Those taxes which do the least harm and the most

good to the national income in the actual process of being levied, are likely to injure accumulation least. But the effect of taxation cannot, strictly speaking, be separated entirely in discussion from the manner in which the revenue is expended. A bad tax well spent may result in a net increase of the national income and of accumulation, while a good tax badly spent may result in a net decrease of production and of saving. Moreover, the question of whether a tax does much harm, or little harm, or actual good *per se* must to some extent be answered differently according as it is spent wisely or ill.

To the conclusion that an increase of the national income tends to increase accumulation, an exception was laid down earlier in the present chapter, namely, that the distribution of the income between saving and non-saving classes should not be altered to the disadvantage of the former. A fiscal measure, such as a protective import duty, if it injured the national income, would not necessarily diminish saving, provided that it increased the income of saving classes at the expense of non-saving classes. The saving classes of the community, however, cannot be sharply differentiated from the non-saving classes; for though, no doubt, persons who live on profits and salaries save on the whole a larger proportion of their income than other classes, yet the absolute amount of accumulation among wage-earners is considerable. Further, a change in the distribution of wealth which results immediately in a falling off in savings, may ultimately lead to an actual increase in the flow of new capital.

The first effect of a rapid improvement in the earnings of a particular class of persons may be riot and debauchery; the subsequent effect may be an increase of thrift.

The result of a given change in the supply of capital which can be invested either at home or abroad will depend upon the elasticity of the demand in various countries. If a variation in the rate of interest increases or diminishes the amount of capital required, to a greater extent abroad than at home, the effect of a change in accumulation upon the prosperity of foreign countries will *pro tanto* be more marked. But the mere alteration in the national income is itself likely to bring an alteration in the demand for capital. An enlargement of the national income will produce some increase in the demand for capital at home, because additional productive resources can be remuneratively applied. The demand for capital in other countries is in turn likely to be increased by the greater prosperity of the United Kingdom, but this secondary effect will be comparatively insignificant. It may, therefore, be regarded as a general rule that any Government action which increases the national income tends to increase home investment; but if the increased supply of capital is greater than the increased demand, investment in other countries will also be more or less powerfully stimulated.

If this export of capital is considered bad, Government action may place obstacles in the way of foreign investment, by regulations as to issues and sales of securities, or by taxation levied on the owners of

capital abroad. It is sometimes contended that duties imposed upon exports from, or upon imports into, the investing country would have the same effect. A duty upon exported goods, so far as it fell upon the foreign purchaser, would undoubtedly tend to check foreign investment, by increasing the price of capital goods. But its effect in this direction is diminished by the consideration that no country has a monopoly of the supply of instrumental goods. Great Britain was once in a very strong position, but the growth of manufacturing industry in many parts of the world has made it impossible for her to raise the price of any particular kind of manufacture for long above its competitive cost of production. A duty on capital goods exported from the United Kingdom would cause such goods to be ordered in other countries; exports from Great Britain would be diminished; imports would likewise fall off; and foreign investment would not necessarily be much less than before. If the demand for capital at home were injured, new supplies would tend to flow abroad rather than to seek investment in the United Kingdom, while some capital already invested would gradually be withdrawn from its employment in this country, and be removed elsewhere. Nor would a tax on imported goods be equivalent to taxing the interest on capital invested abroad.[1] It is true that, so far as prices within the United Kingdom were raised by such a tax, recipients of interest would suffer with

[1] Cf. Mr. Bernard Shaw, "On Driving Capital out of the Country," *New Age*, October 31, 1907.

other people. A given money payment for interest would represent a smaller quantity of goods than before. But it is not clear that owners of capital abroad would be hit more heavily than owners of capital at home. Unless an import tariff increased the national income and lowered prices in some other way, the home demand for capital would be injured more severely, it would seem, than the foreign demand could conceivably be injured.

For practical purposes, therefore, we may conclude that a Government which wished to impede foreign investment, without causing endless complications in other directions, would have to restrict issues and sales of foreign securities, or tax the interest obtained from capital abroad. But what are the effects of foreign investment? Is it desirable that the Governments of investing countries, and the British Government in particular, should endeavour to check the export of capital? These questions, in their economic aspects, will occupy our attention in the next chapter.

CHAPTER III

EFFECTS OF FOREIGN INVESTMENT

In considering the consequences that flow from foreign investment, the first point to which attention may be directed is again that of the return. So far as the expectations of investors are fulfilled, this will be greater than could have been expected if the capital had been invested at home. There is no doubt that the foreign investors of Great Britain, and indeed the home investors also, are able at the present time to obtain a much greater return on their capital than they would be able to get if they were obliged to invest in this country. If measures were adopted to prevent further foreign investment, the rate of interest would decline, and might fall to the low level attained during the years 1893–96, when foreign investment was greatly hindered by disturbances affecting the principal foreign borrowers of capital. The price of money hovered for a long time in the neighbourhood of 2 per cent, and the price of $2\frac{3}{4}$ per cent Consols rose to far above par. Though the huge development of foreign investment is probably not the sole cause of the rise in the rate of interest, there can be no doubt that it has greatly assisted in that direction. Investors who can

obtain a safe 4 per cent abroad are not content to receive only 3 per cent in this country; and consequently there has been a continued rise in the yield on British investments; and an increasing rate of remuneration has had to be paid to attract capital into home industries and employments, and to retain it there. On the other hand, the very rise in the rate of interest may be assumed, on the whole, to have caused more capital to be accumulated than would otherwise have been the case; and this in turn has tended to check the rise of interest. In course of time it may happen that the quicker rate of accumulation which an increased capacity and inducement to save entail, will again bring down the rate of interest, but at the present time the growth of demand, especially abroad, appears to be proceeding as rapidly, if not more rapidly than the growth of accumulation; and interest shows no tendency to fall. Consequently, in discussing the effects of foreign investment, it must be assumed that the rate of interest may be sustained for an indefinite time at a higher level than would be the case if all British capital had to be invested in the United Kingdom.

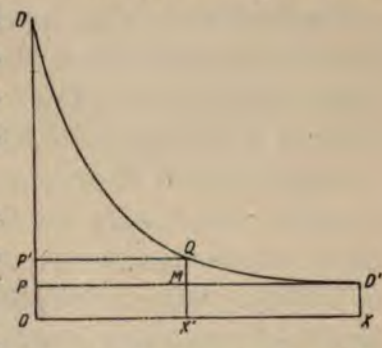
From the point of view of maximising the amount of home production, it is evidently desirable that the rate of interest should be as low as possible, indicating that a very large quantity of capital is co-operating with land and labour. So far, therefore, as the immense flow of British capital abroad in recent years may have caused the amount of capital in this

country to be less than it otherwise would be, it must be concluded that foreign investment has injured the volume of that part of the national income which is produced at home.[1] The question then arises to what extent, if at all, does foreign investment have this effect.

There can be no doubt that the immediate effect of investing abroad a sum which might have been invested (though at a slightly lower rate of interest) at home, is to injure the purely internal productive machinery of the country that exports capital. Capital which might have been employed in production at home is not so engaged, and though it is employed abroad, it does not have any immediate effect in stimulating the output of goods at home. It may, on the other hand, possess a distinct force, as will be seen later, in causing work-people to emigrate. But setting aside this question for the moment, and also the question of the distribution of the national income among different classes of the community, it is clear that a transference of capital to a foreign country tends to make subsequent domestic production for the time being smaller than it would otherwise have been. If the export of capital is small, the falling off in home production will be practically equal in amount to the interest which would have been payable on the capital at home. The rate of interest on the capital remaining in the country will not be appreciably altered, and the efficiency of the remaining labour and capital working together will be practically unaltered, in the sense

[1] The question of distribution of the national income among members of the community will be considered later.

that they will produce the same output per unit as they would otherwise have done. But if the transference of capital to foreign countries is large, the efficiency of the remaining capital and the remaining labour will tend to decline, and home production, other things being equal, will fall off by more than the interest which the exported capital would have obtained had it been invested at home. In the latter case, however, the rate of interest on the capital that remains at home will tend to rise, and a larger proportion of the diminished home output will go to capital.



The matter may be made clearer by a simple diagram.[1] Suppose DD' to represent the demand for capital (including capital already invested) in the United Kingdom, such that at the price OP the number of units of capital demanded to co-operate with land and labour in production is OX units. The total product due to the presence of the capital in the United Kingdom may then be regarded as represented by the figure ODD'X.[2] As the amount of capital in the United Kingdom diminishes, owing to foreign

[1] This paragraph may be omitted by readers unfamiliar with diagrammatic methods in economics, as it is not essential to the argument.

[2] The figure ODD'X represents the national income, so far as it is produced at home. Given the other factors of production, the national income is regarded as due to the presence of capital and its willingness to co-operate in production. It would, of course, be equally legitimate to regard land or labour as responsible for the national income. A general strike of labourers or landlords would be just as disastrous to the national income as a national lockout would be.

investment, X moves towards O. In the early stages of foreign investment, home production is likely [1] to fall off by little more than OP multiplied by the number of units of capital that are no longer available in the United Kingdom. If the amount of capital in the United Kingdom falls off very greatly from OX units to OX′ units, however, the price rises considerably from OP to OP′, and the product due to the presence of capital in the United Kingdom declines at the same time. The loss is measured by the area QD′XX′, Q being the new point of equilibrium between supply and demand. This loss is clearly greater than the loss of income from home sources suffered by owners of capital who no longer invest in the United Kingdom; and who, on the capital remaining at home, obtain a return represented by OP′QX′ instead of OPMX′. Correspondingly, the share of the other factors of production is reduced from DPD′ to DP′Q after the rate of interest rises.

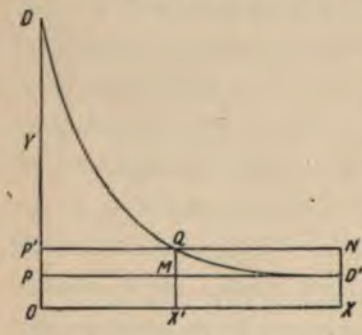
This result is perhaps of some practical importance at the present time. For in recent years, as has been stated, the rise in the rate of interest on home investments has been great—perhaps about 30 per cent—and it is probable that the export of capital has been an important factor in causing the advance. Unless the export of capital during the past few years has brought about a large increase in the home demand for capital in the United Kingdom, it would appear that foreign investment has diminished home produc-

[1] Especially if the demand for capital, as seems to be the case, is elastic at ordinary rates of interest.

tion by more than the amount which owners of capital would have obtained by investment in this country. Any such loss must be borne by the other factors of production, labour, and land, and might be one element in explaining the halt in real wages during recent years.

But the assumption that foreign investment does not alter the home demand for capital, though justifiable for the moment after capital has flowed abroad, is unjustifiable in the long run. For foreign investment is likely to increase the total national income, and so indirectly to stimulate the demand for capital at home. The return which investors draw from their foreign investments is likely more than to counterbalance the loss to the home output caused by the withdrawal of capital and the consequent rise in the rate of interest. The *amount* of the aggregate national income, after capital has flowed abroad to seek more remunerative employment, is found to be greater than it otherwise would be, unless foreign investment induces either the capitalists themselves or others to emigrate. The effect of foreign investment upon emigration, and upon the *distribution* of the national income among the community, will be considered later. For the present, however, it may be observed that an injury to domestic production caused by foreign investment would be no conclusive reason for a country trying to check the export of capital, because the injury to the amount of the home output is likely to be more than compensated by the higher return presumably obtained on capital invested abroad.

The point may be made clearer by reference to our previous diagram.[1] The amount of capital in the United Kingdom was assumed to have fallen off owing to foreign investment from OX to OX′, causing the rate of interest to advance from OP to OP′. The contraction in home production attributable to the export of capital was measured by the figure QD′XX′. This figure, however, does not represent a loss to the national income (including income from abroad), for the capital invested abroad continues, in the absence of emigration on the part of its owners, to yield an income to the United Kingdom. As the return obtained abroad is presumably at least as high as at home, the amount of this income may be represented by the figure QX′XN; which equals the amount of capital abroad XX′, multiplied by the new rate of interest, OP′. But QX′XN is always greater than QX′XD′, since the demand curve for capital DD′ always slopes downwards, signifying that more capital can only be invested if the rate of interest (measured along OY) falls. Consequently the export of capital in search of a higher return than can be obtained at home is likely, if expectations are fulfilled, to increase the amount of the total national income.



[1] This paragraph may be omitted by readers unfamiliar with diagrammatic methods in economics, as it is not essential to the argument.

This increase in the national income of the United Kingdom, as a result of foreign investment, tends to cause some increase in the demand for capital and labour at home. If the income from abroad is reinvested abroad, it is likely that some of the goods will be ordered from British manufacturers; while, if it is consumed in this country, labour and capital will probably also be employed in the work of production and distribution. The particular branches of industry which will be stimulated will depend upon the amount of income from abroad consumed, and the amount reinvested, upon the kind of industry in which reinvestment takes place, and upon the needs and habits of consumers. In the United Kingdom, it would seem that in most years the amount of capital reinvested abroad is very much less than the amount which British foreign investors obtain from previous investments. A stimulus is therefore given to those industries which minister to consumption. As the ownership of capital is largely concentrated in the hands of rich people, the income from abroad probably stimulates those industries and employments which produce luxury goods, and personal services. The latter and many of the former can only be supplied by labour in the United Kingdom.

There is a further and more important reason why foreign investment should increase the demand for capital and labour in this country. Development abroad means that other countries become wealthier, that their demand for goods which Great Britain can easily produce expands, and that they can purchase

British produce and manufactures by sending raw materials and other commodities in immediate exchange. Even apart from the income which the United Kingdom obtains directly from foreign investments, therefore, a gain is obtained in exchange transactions with other countries. The amount of desirable goods which the inhabitants of the United Kingdom are able to obtain tends to increase, and their price to fall.

A striking illustration of the kind of advantage which is secured by foreign investment may be found in the enormous expansion of rubber production and the great cheapening of price brought about by the investment of British capital in the production of raw rubber. During the rubber "boom" of 1910 the price of Para rubber rose to 12s. 10d. per lb., but two years later the price was little more than one-third of that amount. Both the output and the consumption increased prodigiously, with much benefit to the national income of the United Kingdom and other countries. Great advantage accrued to the producers of rubber goods, rubber tyres, and motor cars, as well as to consumers and to investors in rubber concerns.

The same process as that just illustrated has been at work for a century or more in the case of foodstuffs, cotton, wool, and other raw materials. British investments in North and South America, in Australia and India have enabled the supply of food and clothing to be increased in proportion, and more than in proportion to a rapidly growing population.

"The exportation of capital," wrote John Stuart

Mill,[1] " is an agent of great efficacy in extending the field of employment of that which remains : and it may be said truly that, up to a certain point, the more capital we send away, the more we shall possess and be able to retain at home."

It is sometimes contended that the above theory, although applicable in the case of foodstuffs and raw materials, produced abroad with the assistance of British capital, does not hold good where a manufacturing or " competing " industry is assisted abroad. " In this case," it has been said,[2] foreign investments " serve simply the interests of the possessors of movable capital and of the mercantile classes, not those of home producers and their workers." Thus it might be argued that British investment in Indian jute mills, in Canadian iron works, or Russian cotton mills, or indeed any investment which directly or indirectly promoted industries abroad in competition with the principal British industries, was injurious to the national income of the United Kingdom.

This argument cannot be directly refuted. The development of competing industries abroad is obviously beneficial to the world at large, so far as it signifies more economical production, and the benefit will tend to spread to every country. But it is conceivable that the national income of any given country may be injured directly to a greater extent than it benefits indirectly. For it cannot be *proved* that there will be in the same country an

[1] *Principles of Political Economy*, bk. iv. chap. iv. § 8.
[2] Fuchs, *The Trade Policy of Great Britain*, p. 208.

equally remunerative industry to absorb the capital and labour displaced by foreign competition. If a country had exceptional advantages for producing one kind of commodity for export, the evolution of a similar industry carried on even more economically abroad might so greatly reduce the value of the exports from the first country that, despite a benefit to the world at large, it would be unable to purchase so great an amount of imports as before, while its capacity for producing these or other commodities was relatively small.[1] In this case the national income of the country might be injured by foreign investment despite the higher return which was obtained by investing capital abroad.

But the practical importance of such a possibility is small. In the case considered it was assumed that only one commodity was exported from the country which sent capital abroad, and that a foreign country succeeded in producing the commodity more economically. But in actual practice all countries which export capital send abroad a more or less wide range of commodities, and the wider the range the smaller the probability of a country being cut out in competition all round, though the greater the probability of some exporting industry or other being injured by foreign competition. The cutting off of a country's entire export trade to foreign lands involves an assumption of equal relative superiority or inferiority

[1] Brazil is perhaps a case in point. The country has been severely injured by the extension of rubber planting in the East. As rubber and coffee are its most valuable exports, the total trade and the prosperity of the country have suffered. But Brazil does not export capital.

of production in every industry, as compared with all other countries, and nothing is more inconceivable than this. It is almost impossible that any considerable part of a country's trade should be cut off in this manner. Even if such a possibility occurred, however, the loss to the national income of the country would not necessarily be great: capital and labour which had hitherto produced goods for export would be diverted to producing goods for domestic use. The change would probably be gradual, and the balance of good or bad negligible. Further, it is clear that at the present time the absence of British capital could do comparatively little to stop the development of a highly remunerative industry abroad. If British capital were prevented from entering a particular occupation abroad, the gap would to some extent be filled by capital of the country itself or of some other investing country. British capital would flow to a less attractive occupation, and foreign capital would be liberated to develop the industry which was considered detrimental to the interests of Great Britain. Apart, therefore, from any further effects which it may exert in attracting British working men or British capital abroad, it may be concluded that the development by British capital of competing industries abroad (and how many foreign industries do not compete more or less with British industries!) can hardly be conceived to injure the *amount* of the national income. On the contrary, there is reason to suppose that it will increase the national income.

Having now considered the effect of foreign

investment upon the amount of home production and the amount of the national income, we may proceed to examine the effect which it is likely to produce upon the *distribution* of the national income among members of the community, and in particular its effect upon work-people. We shall then be in a position to discuss the question of emigration, as affected by foreign investment.

It has been shown that (apart from emigration) foreign investment is likely to make the amount of a country's national income, from all sources, greater than it would otherwise be. But foreign investment tends to bring with it a rise in the rate of interest at home, owing to the diminished amount of capital seeking employment in domestic industries. Home production is injured, except in so far as foreign development causes an increase in the amount of capital which can be profitably invested at the higher price. Supposing, however, that this last factor is sufficient to maintain home production on the level at which it would have been if capital had not gone abroad, it still remains true that capitalists will tend to get a larger share of the home output, and work-people, *qua* work-people, a smaller share, so that the latter will probably be worse off than before. On the other hand, certain classes of wage-earners may hope to benefit from the increased income of those who own capital abroad — in the United Kingdom this would apply particularly to those who produce personal services (*e.g.* to gardeners and domestic servants), and to those who make luxury goods.

There is an inevitable difficulty in weighing the contending forces, connected partly with the period over which comparisons are made. For example, it is likely that foreign investment has vastly benefited the work-people of the United Kingdom regarded broadly over a century; but the foreign investment of the past ten or fifteen years may for the present have injured persons who own no capital, and this would be in harmony with the fact that real wages have remained practically stationary in the United Kingdom during recent years. The rate of interest has gone up very greatly, and with it the bargaining power of capitalists as compared with work-people has become stronger. In a country such as France, where the ownership of capital is widely distributed, higher profits obtained at the expense of wages might not greatly injure the working-classes, since they would gain as capitalists part of what they lost as wage-earners. But in the United Kingdom, where wealth is less evenly divided, the working classes are more likely to suffer from a high rate of interest.

If we consider the matter over a short sequence of years, the suggestion that recent foreign investment has for the time being injured wage-earners appears to be reinforced by considerations which suggest that the indirect effects of British foreign investments in stimulating the demand for capital in the United Kingdom have not been very great.

In the first place, British capital invested abroad serves not merely the purposes of economic develop-

ment, but also defrays wasteful expenditure which does not result in any permanent increase of productive power, and may result in a diminution of the world's wealth. Expenditure on war does not in most cases promote an immediate economic development: it usually does the reverse. Consequently, British capital loaned to belligerents is likely to cause a smaller expansion in the demand for capital in the United Kingdom than would otherwise be the case. Again, much capital is lost in worthless speculations which benefit not even the speculators. Another kind of foreign investment has also tended, on the whole, to diminish the returns on much British capital invested in years gone by, and has therefore to some extent operated in a manner hostile to further investment in the United Kingdom. The enormous increase in the gold output and in banking abroad in recent years, is largely due to British and Continental investment in the Transvaal, and in banks all over the world. The resulting rise of prices has made it possible for debtor countries to pay with ever-increasing ease the obligations on fixed interest securities issued during the period of falling prices and low rates of interest which culminated about 1895. A fixed money obligation has represented a declining quantity of goods, the real national income of the United Kingdom has so far suffered, and the home demand for capital has presumably been injured at the same time.

But there is a further circumstance tending to make the effect of foreign investment in increasing

the home demand for capital less than might at first sight appear. The rapid cheapening of the price of rubber, following a large investment of British capital in rubber plantations, was given as an illustration of the way in which the home demand for capital may be stimulated. It must be remembered, however, that the benefit of cheap rubber accrues not only to the United Kingdom, but also to every country that consumes rubber. The same is true where the price of any other commodity is cheapened : it is the chief consuming country that tends to derive the greatest benefit, while other countries tend to gain according as they consume much or little. Hence, in the present state of the world, when there is probably no commodity of importance of which British consumers monopolise the demand, British foreign investment indirectly stimulates the demand for capital not only in the United Kingdom, but also in other countries. French, German, and Dutch foreign investments obviously too stimulate the demand for capital, not only in France, Germany, and Holland, but also in Great Britain. Thus foreign investment for purposes of development tends to beget a demand for further foreign investment, as well as for further home investment, as a secondary effect.

The analysis of the effects of foreign investment may now be carried a step further. The " pure theory " of international trade assumes as a hypothesis, that labour and capital freely circulate within the national boundaries, while they do not easily pass outside it. Even in the middle of last century,

Mill admitted that the validity of this assumption showed signs of breaking down, "that both population and capital now move from one of those (the more civilised) countries to another on much less temptation than heretofore." Since Mill's time capital exports have gone ahead by leaps and bounds, and the obstacles to foreign investment have been greatly diminished, so that the yield at current prices of the best class of foreign securities owned by British investors is comparatively little above that of the best home securities. In the case of labour the movement has perhaps not gone so far: there is probably a greater disparity in wages in different parts of the world than there is in profits. Nevertheless, migration of capital may tend to assist migration of work-people, by raising wages abroad, and by removing difficulties which deter people from migrating. The lowering of the rate of interest abroad, owing to the investment of foreign capital, signifies that capital has become more plentiful than before, relatively to the other factors of production, and hence that the demand for labour has improved. This fact was clearly illustrated at the time when railways were first constructed in Europe. The work was largely performed by British contractors with British capital and British workmen, of whom hundreds were sometimes employed. Even after construction had been completed, Englishmen were sometimes retained for a time as engine-drivers, etc. As foreign workers became more efficient and were willing to accept lower wages than English workmen, the

latter were in course of time displaced by the workmen of the countries in which they worked; but British capital was clearly a powerful influence in raising Continental wages towards the level of wages in Great Britain. In this case, perhaps, foreign investment operated to check emigration from Continental countries, by improving the standard of life there, as compared with countries to which workmen might have emigrated. Foreign investment, in fact, may encourage or check emigration according as it increases or diminishes the net advantages (of which wages are an important part), as people see them, of living in one country or another.[1] There can be no doubt that the development of thinly-populated countries by British capital does encourage emigration thither, while emigration in turn encourages further investment by raising the demand for capital. The depopulation of Ireland must have been due in part to the opening up of the United States by British capital, and the stream of emigration from Great Britain may be partly attributed to the same causes.

It is to be noted, however, that British foreign investment in North and South America, Australia, and other thinly-populated countries does not attract emigrants merely from this country. Perhaps it

[1] It may be observed that the cost of transport has to be taken into account, so that a rise of wages in one country may actually encourage emigration, because would-be emigrants are better able to afford the passage money. The importance of this, however, is minimised by various forms of assisted emigration. A rise in wages in one country, moreover, may encourage emigration if it enables work-people to obtain more knowledge of foreign countries where conditions of labour and life are better, thus magnifying the anticipated advantages of emigration.

does not mainly do so. Nor, on the other hand, does French and German foreign investment attract population merely from France and Germany. The countries which in recent years have been sending away the largest streams of emigrants include Italy, Austria-Hungary, the Balkan States, and Russia, none of which have any considerable amount of capital abroad, and most of which employ large quantities of alien capital within their own borders. There is, indeed, an obvious reason why such countries should lose inhabitants to a greater extent than Great Britain: the wages offered to workmen are much lower than in this country, and the attractions to them of Canada, the United States, and Argentina are correspondingly greater. Every further investment of British capital abroad, moreover, signifies a possible increase in the national income of this country in future years (apart from emigration of capitalists and labourers); and an increased national income is likely to mean in the long run a greater demand for labour, and higher wages in the United Kingdom. This, together with a possible cheapening—owing to foreign investment—in the price of goods purchased from abroad, may to some extent offset the increased attractiveness of the foreign countries in which the capital is invested.

It may be urged, however, that the filling up of new countries in North and South America, etc., by emigration of labour and capital from Europe will ultimately mean a largely increased demand in those very countries for the food-stuffs and raw materials

which are so necessary to Great Britain, and Western Europe, if they are to support their present populations, and to maintain and improve the prevailing standards of comfort. Already, it is contended, the United States is importing more food-stuffs than she is exporting, and although the American output could be greatly increased, that could only take place if the selling price were higher, since the law of diminishing returns has come to apply to her agricultural industry. The increased demand in the United States is tending to drive up the price of food-stuffs in the world market, so that British investment there may be detrimental to the real national income of the United Kingdom, and may affect the distribution of the income by raising the price of those goods largely consumed by the poor.

This line of argument would appear valid, but it cannot be pressed too far. In the first place, food-stuffs are not the only commodities produced in the United States which are sold in the United Kingdom and presumably benefit the British national income. Secondly, the increased difficulty of producing more food-stuffs in the United States is detrimental to the American as well as to the British consumer. It tends, therefore, to divert capital and labour to other parts of the world, where production can be carried on more easily. Hence it is found that British capital has been flowing less to the United States and more to Canada and Argentina, which are now two of the chief sources of food-supply for Great Britain. American capital is also flowing

North and South into Canada and Central and South America. But further, it cannot be assumed without proof that what is happening in the case of the United States will happen also in other countries —that they will reach a stage of development at which the home demand for raw materials will raise prices against European consumers. For the United States is admirably adapted, through her coal and iron supplies, and the innate genius of her people, to be a big manufacturing country, while the future of such territories as South America and Africa, as manufacturing countries, is perhaps open to doubt. So far as can be foreseen, a large interchange between countries of food-stuffs and raw materials against manufactured goods is destined to continue for an indefinite time to come, and the fear that British foreign investment will hasten the day when the law of diminishing returns will operate strongly against this country is correspondingly lessened. On the contrary, if British and other capital ceased to be invested in Canada and South America, the price of food-stuffs might rise considerably within a few years.

The conclusion to which these considerations lead is that probably in the long run any interference with the free flow of British capital for the development of foreign countries would injure the national income per head of the population of the United Kingdom; but that its result upon the total income accruing to the inhabitants of these islands is indeterminate, owing to the effect of foreign investment

in promoting emigration. The population of Ireland has certainly been diminished by emigration, and the aggregate income lessened; but Ireland has few foreign investments, and it is perhaps a moot point whether emigration, say in the last fifty years, has caused the population of England to be much less than it otherwise would be. The answer to the question how many people will be induced to emigrate after foreign countries have become developed by British capital, clearly depends on the relative attractiveness of Great Britain and other lands for living in, and for working in. So long as this country continues to enjoy its present advantages of climate, scenery, institutions, and natural resources, there is no ground to expect that emigration will denude it of its population. A rise in the rate of interest in the United Kingdom owing to foreign investment may, as has been pointed out, lower wages for the time being, and so tend to increase emigration of work-people; but that is a secondary effect of little importance in the long run. Emigration of work-people who were injured by a rise in the rate of interest would probably *ipso facto* do something to raise the wages of those who remained. Interference with foreign investment, which lowered the rate of interest in this country, might, for the time being, raise wages and discourage emigration of work-people though not of capitalists. In the long run, however, it would diminish the amount of the national income and lower wages; and would probably lead to increased emigration, especially in view of the fact that the

development of distant lands could not, under modern conditions, long retard the development of desirable countries with natural resources to be exploited. The attractiveness of other countries would be much the same as if British capital had not flowed abroad, but Great Britain would be a less prosperous and less attractive country in which to live.

CHAPTER IV

THE GROWTH OF FOREIGN INVESTMENT

One part of the history of the world is the story of race movements and migrations. Undue growth of population in one area, the sudden contraction of the means of subsistence by a famine, the misery caused by wars, by political oppression, or by religious persecution, have all operated at one time or another to drive sections of a people to seek a happier life elsewhere. On the other hand, the countries to which emigration has taken place have frequently held out great attractions of wealth, of climate, and of political and religious equality. Whatever were the particular causes, the flow of population has always been dictated by the belief that another land offered, on the whole, superior relative attractions. The forces which controlled the flow of capital over the world have in the main, until recent times, been the same as those which produced migrations of populations; for the latter would not willingly leave behind such part of their capital as was mobile. But in modern times emigration of capital has been more and more separated from emigration of persons. It has become possible for persons to move from one

land to another and to retain full rights and adequate control over the capital which they have left behind them. In the same way, persons who remain in their own country can send their property abroad while retaining their rights to it, and obtaining periodic payments for the service performed by it. The capitalist, in a word, need now have little fear that property which is not under his immediate control will be lost to him. Geographical considerations play a much smaller part than in the past.

The history of this evolution must be regarded as part of the process by which commercial intercourse has been extended so that the prosperity of each individual country has become intimately bound up with the welfare of all other countries. But the increased respect for private property, even when belonging to aliens, has been promoted above all by the growing desire all over the world for commercial and industrial development upon capitalistic lines. Commerce and industry, however, thrive only upon law and order, which permit capital to be accumulated and employed in the most remunerative manner. Consequently there has been a very strong force at work moulding municipal and international law, and the moral sentiments which determine the actions of individuals, and tending to bring about the conditions requisite for development. As soon as a certain amount of stability has been reached in internal and external relations the possibility of assistance to backward countries by countries which have reached a higher

stage of economic development begins. This assistance, as we have seen, may take the form of emigration of capital apart from labour, or emigration of labour apart from capital, or of capital and labour together. It is to the first of these, namely, emigration of capital apart from labour, or absentee investment, that our attention will be chiefly directed.

But let us come to closer quarters with our subject, and examine the main phases of foreign absentee investment in the modern world. The origin from which foreign investment has sprung may be located in trade; and the first foreign investors were merchants. But gradually the business of foreign investment has become differentiated from the general business of exchange. In the first place, some merchants confined their attention more closely to banking and money-lending. The requirements of princes, and later of states, provinces, municipalities, and the vast field of demand which appeared with the growth of private and joint-stock capitalistic enterprise, all assisted the process by which finance became distinguished from trade. On the other hand, an increase in the number and importance of wealth-owners outside the ranks of merchants, men who were willing to lend their money out for safe keeping, or sought to make a profit by depositing it with those who could use it productively, swelled the business of those whose function was to bring the supply of capital into touch with the demand for it. This process, which began in the Middle Ages, hastened its pace in the nineteenth century, and we

now see a highly perfected mechanism whose chief aim is to promote and facilitate the borrowing and lending of capital. The financier and company promoter, banks, stock exchanges, and even the financial Press, assist in this process.

The centre from which financial energy has spread moved gradually with the westward and northward movement of economic power and civilisation. It was located early in Northern Italy; it passed for a time to Spain and Portugal, only to move on to Holland, to France, and to England, where it had arrived by the end of the eighteenth century. London was then the only market where any large quantity of floating capital was available to supply the requirements not only of domestic industry, but also of foreign Governments and others. It is true that the demands of the British Government during the Napoleonic Wars for a time drained the market dry, but the advent of peace soon left the flow greater in volume than ever before. Industrialism in this country was more developed by a generation than on the Continent, and far stronger than in America. For thirty years or more Great Britain alone was able to supply large amounts of capital for the development of other countries. British capital flowed East and West to Europe and America, financing Governments, developing the means of transport and performing the spade-work of modern economic organisation. The metamorphosis of Western Europe and the Eastern United States, however, from countries predominantly agricultural, pursuing old-fashioned

handicrafts, into factory and machine producers, gradually enabled them to take an increasing share in the development of territories farther afield. Capital was accumulated, and spread out eastwards into Russia, Austria, Turkey, and Italy. American capital from the more developed parts of the Union was spread incessantly westwards with the migration of population. But in addition there was, here too, a gradual growth of absentee investment by the Eastern States in the West. Towards the close of the nineteenth century American capital began to flow northwards into Canada, and southwards into Central and South America. The growing strength of American finance required a wide area for investment. But this very development of other financial centres of importance assisted in widening the geographical field of British investment. London found itself squeezed more and more between the European financial mechanisms and the New York capital market. Hence we find British capital pushing its way to India, to Australia, to Africa, to South America, and to Canada, and to other undeveloped parts of the world, and tending more and more to avoid the continent of Europe and the United States.

Another point of view from which we may regard the question of foreign investment is that of the kind of work for which the capital is required. The purposes for which foreign capital is borrowed have grown side by side with the area over which the capital is spread. The earliest uses of foreign capital

were in trade, or when a prince contracted loans with foreign merchants. Plantations were another early form of investment, and with the nineteenth century mines became important. Canals and banks form another opening, and with the successive invention of steam traction, gas lighting, the electric telegraph and telephone, and electric light and power, the purposes for which capital was demanded grew apace. It is scarcely too much to say that every mechanical and technical invention, and every change in demand, has affected the purposes for which foreign capital is employed, though the obstacles to investment in some directions have caused foreign capital to flow far from evenly over the field of industry. There is a boundary—which has in the course of history been slowly modified, but has not yet disappeared—that marks off the domain of the distant foreign investor from the sphere of the domestic investor.

A further aspect of the subject relates to the individuals, who at different times possessed capital to invest, and felt disposed to send it abroad. With the growth of modern industrialism the number of such persons has vastly increased, and the proportion of capitalists willing to invest abroad has advanced with the increase of opportunities for foreign investment, the growth of security, and the progress of knowledge. The nature of the motives which appeal to capitalists, in inducing them to lay out their capital abroad, have been discussed in an earlier chapter, but we shall again have occasion to allude to the central facts in the following pages.

The origin of modern absentee investment may be traced back, as we have said, to the Middle Ages, and examples may be given from the operations of the Jews, of the Lombards, and of the Florentines in Mediaeval Europe. Thus in 1403, Henry V. borrowed 1000 marks from the merchants of Genoa, allowing them to retain the duties on goods to be imported and on certain other goods to be exported by them from certain ports. The loan was renewed in the following year on the same terms, and certain Florentine merchants lent 500 marks in return for similar benefits.[1]

By the beginning of the seventeenth century, foreign investment had become of some importance, since the possibilities of accumulation and the openings for investment were much greater than at any time previously. Mediaeval restrictions had largely broken down, and the extension of foreign trade brought much money into the hands of merchants. The development of trade was in most cases, it is true, accompanied by little investment of capital, for the first idea of the Dutch and English, as well as of the Spanish and Portuguese, was to exploit the distant countries with which they came into contact, and development, as the most efficient mode of exploitation, hardly occurred to them. Investment, therefore, was mainly of capital in the carrying trade, and in a number of trading stations in suitable places. Thus the British East India Company acquired "factories" at Bombay, Madras, and Calcutta,

[1] Macpherson, *Annals of Commerce*, vol. i. p. 614.

somewhat as the Hanse merchants had for centuries possessed the Steelyard in London. It is clear that the great bulk of the capital required for the trade with the East was what would now be called mercantile capital. It was invested in ships and goods, and only to a very small extent in fixed establishments abroad. The chief opening for permanent investment in these early times was the plantations in the West Indies and on the North American mainland. These also provided the main field for emigration. The dominant motive for development was economic—to produce such things as tobacco and sugar, which would find a market in Europe. Large estates were developed, carried on by men who either owned their own capital (having presumably brought it from England) or borrowed it from merchants.

Edward III. and Mary had relied upon the Hanse league, and Elizabeth borrowed from Dutch merchants in the United Kingdom. She also borrowed in Hamburg and Cologne, and in Antwerp the sum of £75,000 for the purpose of reforming the coinage. Antwerp was at that time the chief centre of these operations, and financiers used to transfer money to places where interest was high.[1] On the other hand, Elizabeth, in 1576, lent £40,000 to the State of Flanders.[2]

During the seventeenth century, private borrowing from abroad became more prominent in this country,

[1] Historical MSS. Commission, Appendix to Report VIII., p. 30.

[2] Cunningham, *Growth of English Industry and Commerce in Modern Times*, vol. i. p. 146.

and Dutch merchants lent large sums. Thus it was stated before the Committee on the Decay of Trade, in 1669, that a certain Alderman Bucknell had over £100,000 of foreign money in his hands, that a Mr. Meynell had above £30,000, a Mr. Vanderput (evidently a Dutchman) at one time £60,000, and a Mr. Dericost always nearly £200,000 of Dutch money lent to merchants at 7, 6, and 5 per cent. A great part of the money used in the rebuilding of London after the fire of 1666 was also said to be Dutch,[1] and the Dutch were largely interested in the draining of the fens. Some of the witnesses before the Committee, however, denied that there were any very large sums of Dutch capital engaged in this country. Possibly the reduction of the legal rate of interest from 8 per cent to 6 per cent, in 1651, affected the amount employed here. But although the market rate of interest was higher in England than in Holland, it was higher still in most other countries, and we find it stated that English capital was sent to Venice.[2]

Meanwhile, loans for public or quasi-public purposes continued to be raised abroad, and Charles I. employed the Duke of Buckingham in 1625 to borrow £300,000 from the States-General of the United Netherlands or their subjects, upon the pledge of the Crown jewels and gold vessels, to enable him to carry on his war against Spain.[3] Towards the end of the century a large part of the capital of the Bank of England was also subscribed by the Dutch.

[1] Historical MSS. Commission, Appendix to Report VIII., p. 134.
[2] *Ibid.* [3] Macpherson, *Annals of Commerce*, vol. ii. p. 337.

If we turn now from the seventeenth to the eighteenth century, we again find the position slowly changing. Not that capital from abroad ceased to be invested in Great Britain: quite the contrary; for British requirements were greater than ever before. The principal of the British National Debt grew from 16 millions sterling in 1702, to 128 millions in 1775, to 249 millions in 1783, and to 520 millions in 1802. The economic changes through which the country was passing demanded huge sums of money, and provided a favourable field for the attention of British and Dutch investors. Many millions had to be borrowed for constructing canals; the building of towns and factories was a heavy drain upon the available resources; while the agricultural transformation through the enclosure of the common fields, and the development of internal and international trade, also absorbed very large amounts.

While the great bulk of the capital was naturally supplied at home out of the wealth which was being rapidly accumulated, foreign participation in the development of Great Britain was, as we have said, of increased importance. The Huguenot immigration at the end of the seventeenth and beginning of the eighteenth centuries can hardly be considered a "foreign investment" in the sense in which we have been using the term. But there is no doubt that it added very largely to the personal capital of the country, for the Huguenots brought with them industrial skill and a knowledge of technical processes hitherto unknown in Great Britain, which powerfully

stimulated the Industrial Revolution. It does not require a very minute examination to show that Holland was very deeply interested as an investor in this country. In 1774 it was believed that more than one-quarter of the debts contracted during the war with the Colonies had been subscribed by the Dutch, "which with what we were before indebted to them by the wars of King William and Queen Anne, we now pay them near a million a year interest money." [1] Reckoning interest at 4 per cent, this would indicate that Dutch holdings of British debt amounted to nearly 25 millions sterling. Another estimate places Dutch holdings of British stocks in 1776 at £59,000,000,[2] or about three-sevenths of the whole debt. The Dutch also held large amounts of other stocks. In 1762 it was reckoned that foreigners held £2,500,000 of South Sea Stock, over £500,000 of East Indian Stock, and £4,600,000 of Bank Stock, as well as £10,300,000 in other funds transferable at the Bank of England, the total being about £18,000,000.[3] The difference in the rate of interest in Holland and in England was striking, for while the Dutch Government could borrow at 2 per cent, and private individuals with good credit at 3 per cent, the British Government had to pay 3 per cent between 1750 and 1755, and considerably more in the later years of the century. This rise in the rate of interest may in some measure have been caused by a feeling of distrust on the part of Dutch investors; for at

[1] Postlethwayt, *Dictionary of Commerce*, art. "Holland."
[2] *Economist*, February 13, 1913.
[3] *Wealth of Nations*, Cannan's edition, vol. i. p. 93, footnote.

the end of the third quarter of the eighteenth century Dutch holdings of British securities are said to have been considerably reduced. England was unable to borrow in Holland the money required to carry on the war with the American colonies, and a $6\frac{3}{4}$ per cent loan for £20,000,000 was only subscribed there to the extent of about one million sterling.[1]

It must not be imagined that British capital was entirely engaged in domestic development, or that our investments abroad were not extended during the eighteenth century. On the contrary, the active Colonial expansion was a sign of financial strength. Territorial conquest, the growth of trade and of foreign investment, went hand in hand. It would be unnecessary to insist upon the growth of the East India Company's trade and influence, or upon the extension of its activities to civil administration, all of which represented an enormous investment by British capitalists and a large annual income. In America somewhat similar progress was made. The population of the American colonies was swelled by emigration from the United Kingdom, and trade expanded at the same time. Considerable investments were made by merchants in tobacco and other plantations. The quarrel with the Colonies, however, interfered with investments; large losses were incurred through the confiscation of British property which could not be recovered when the war came to an end; and British investors for a few years after-

[1] *Economist*, February 15, 1913.

wards looked askance at the United States as a field for investment.

The rapid development of the United States, however, after the War of Independence, appears again to have been accompanied by a considerable immigration of capital (presumably from Holland and to some extent from England), and Alexander Hamilton was fully alive to the importance of attracting it.

The aid of foreign capital, he said, might safely, and with considerable latitude, be taken into calculation. Its instrumentality had been long experienced in American external commerce, and it had begun to be felt in various other modes. Not only the American funds, but agriculture and other internal improvements had been animated by it. It had already, in a few instances, extended even to American manufactures.[1] Later in his report, Hamilton mentions that enterprises for improving the public communications by cutting canals, opening the obstructions in rivers and erecting bridges, had been assisted by foreign capital. In speaking of foreign capital Hamilton perhaps considered mainly the capital brought in by immigrants, of whom large numbers were coming from England and Germany. The possibility of increasing the absentee investment by persons remaining in Europe must have been present to him since the Government had contracted loans abroad, but it was probably of subordinate importance at that time. Such investments in American commercial ventures as were made by

[1] Alexander Hamilton, *Report on Manufactures*, p. 34.

non-residents were no doubt mainly due to British and Dutch merchants who had agents or partners in the United States.

The increasing importance which was attached to foreign Government borrowings in London had already been hinted at in 1730, when Walpole, on the occasion of Charles VI. desiring to borrow £400,000 in London, introduced a bill prohibiting loans to foreign powers without the Royal License under the Privy Seal.[1] The bill became law, but its duration was limited to two years, and it was not renewed. A further loan of 1,000,000 crowns was made to the Emperor in 1735 by London merchants, the revenues of Upper and Lower Silesia being hypothecated for the repayment of the loan.[2] It was this loan, we may note, which the King of Prussia, after having assumed the liability on the cession of Silesia in 1742, attempted to confiscate during a dispute with England in 1745. British capital is also stated by Adam Smith to have been engaged in France, where the rate of interest was higher than in this country, thus attracting capital from neighbouring lands, such as Switzerland and Holland.

The position of the British market for capital, we may therefore conclude, was steadily becoming stronger, so that even in the domain of European loans we were beginning to compete with Amsterdam. The rapid pace of internal development, however, and the large amounts required for war, naturally

[1] Poley, *The History, Law and Practice of the Stock Exchange*, 2nd ed. p. 14.

[2] Martens, *Causes Célèbres*, p. 97.

caused the great bulk of investments to be made within Great Britain. Contrast the position of Holland, a small but very wealthy country, living from commerce, with few internal openings for investment. Obviously Dutch capitalists had a strong inducement to invest in neighbouring countries where the demand for capital was greater and the rate of interest higher. The only condition was that there should be reasonable security. Some interesting particulars about the Dutch capital market towards the end of the eighteenth century are to be found in the despatches of the American agents who were sent to Europe to procure financial assistance for the Colonies in their war with England. Arthur Lee wrote to the Committee of Foreign Affairs in August 1778:

"The Empress Queen has engrossed every shilling in the Netherlands. England has drawn large sums from the Hollanders, who cannot easily quit their former market. France is negotiating a loan of one hundred million livres which will exhaust Geneva and Switzerland." [1]

For a long time the American representatives could not get any assistance from Dutch financiers. The interest offered was small, and the security appeared even smaller, in the absence of any strong central government. The United States had to content themselves with small advances from the French and Spanish Governments. These, however,

[1] Quoted in *The Dutch Republic and the American Revolution*, by Friedrich Edler (John Hopkins University Studies), p. 77.

were more of the nature of subsidies than of loans, and in 1777 Louis XVI. had actually granted 2,000,000 livres to America, with no promise of repayment, the sole requirement being absolute silence.[1] The Dutch soon took a somewhat more favourable view of American credit, and in June 1782 negotiations for a 5 per cent loan of 5,000,000 guilders were carried through. In July 1783 John Adams wrote concerning this to the Continental Congress:[2]

"I have great pleasure in assuring you that there is not one foreign loan open in this republic which is in as good credit, and goes as quick as mine. The Empress of Russia opened a loan of five millions about the same time as I opened mine. She is far from having obtained three millions on it. Spain opened a loan with the house of Hope at the same time, for two millions only, and you may depend upon it, it is very far from being full. Not one quarter part of the loan of France upon life rents, advantageous as it is to the lender, is full."

The loan, however, went very slowly according to modern notions, and was not fully subscribed in 1786—about four years after the subscription lists were opened. The Dutch still had misgivings as to the security offered by a country with a federal constitution as loose as that of the United States after 1783, which could not make good its engagements and had no substantial revenue. The efforts of the United States to borrow in Holland were also

[1] Edler, *op. cit.* p. 73.
[2] Quoted by Nathaniel T. Bacon, *Yale Review*, 1900, p. 266.

hampered by the attempts of the individual states to secure similar loans.[1]

Gradually, however, American securities came more and more into favour in Holland, and very large quantities were purchased by Dutch bankers who wished in 1787 to make arrangements with the United States to pay the interest in Holland. Adams considered this inexpedient, on the ground that "if a precedent is set of paying them (the certificates) in Europe, I pretend not to sufficient foresight to predict the consequences: they appear, however, to me to be horrid." His fear was that, if the interest of $1,000,000 were paid in Europe, $10,000,000 would be demanded in the following year.[2]

It may be noted incidentally that a United States Act of 1802 authorised the Commissioners of the Sinking Fund, with the approbation of the President, to contract with any bank or individual for the payment in Holland of any part of the Dutch debt and its interest, or to employ an agent for the purpose, the cost not to exceed $\frac{1}{4}$ per cent.

The position then in 1792, at the outbreak of the revolutionary wars, may be summarised as follows: Holland was still the chief financial centre in which capital could be borrowed for foreign loans and other enterprises abroad. But she was soon to be displaced by London, whose resources, though temporarily drained by the Seven Years' War, and the War of American Independence, were constantly being

[1] Edler, *op. cit.* p. 208.
[2] Bolles, *Financial History of the United States*, vol. ii. p. 354.

increased through the rapid growth of trade and industry. The field of foreign investment was still very narrowly limited, for beyond a few loans to European princes, a fairly numerous selection of investments in Great Britain (which absorbed a fair amount of Dutch capital), United States loans, and the merest beginnings of foreign investment in American banks and canals, in the East India Company and West Indian Estates, foreign investment was practically non-existent. But small as was the extent of foreign investment, and insignificant as were the sums invested, when compared with present-day figures, there had nevertheless been a marked advance upon the investments of the seventeenth century. Foreign investors were less exclusively merchants. Stocks were bought and sold by the non-mercantile classes. Moreover, the volume and area of foreign investment, as well as the purposes to which capital was applied, showed a wider extension.

CHAPTER V

THE PERIOD OF BRITISH PREDOMINANCE

THE close of the eighteenth century saw the final destruction of Amsterdam as the predominant financial market of Europe. The overthrow of the Dutch Republic by Napoleon, coupled with the exaction of a heavy indemnity, and the failure of the Bank of Amsterdam and the Dutch East India Company, left London supreme. Not that there was any considerable extension of British foreign investments during the war period: the heavy drain of capital for war loans prevented that. The National Debt increased from 529 millions before the war to nearly 803 millions in 1815. Add to this the waste caused by a vicious Poor Law, which seriously injured the productive efficiency of the nation, and it will be realised that there can hardly have been any large accumulation of capital for foreign investment. This was especially the case during the later years of the war, when the burden of the National Debt had grown almost intolerable.

Nevertheless, we find even during the war period some extension of British foreign investments. British subjects came in as purchasers of United States loans,

so that in 1807, it was estimated that $80,000,000 of the American National Debt was held in this country.[1] Investments were also believed to have been made through Barings in the First United States Bank. But the main movement of capital was still into Great Britain, and not away from Great Britain; Continental investors sent their capital here for safe keeping, and probably invested in a considerable range of securities. The property tax statistics show that in 1806, £18,500,000[2] of the National Debt was exempted from tax, on the ground that it was owned by foreigners. In 1813, claims were made for the exemption of over £20,000,000 on the same ground, but by 1815 this figure had fallen by £3,000,000, showing that capital was now being withdrawn by Continental investors. It is curious to note that in 1812 a small amount of the British National Debt had been held in New England.[3] The importance of foreign holdings of Bank Stock is indicated by the fact that, as late as 1817, one-tenth of the proprietors were believed to be aliens.[4]

At the close of the great wars the position was a remarkable one. Great Britain stood, in contrast with Western Europe and the Eastern States of the American Union, fully a generation ahead in industrial development, and was possessed of far greater productive resources and capital for investment. The cessation of Government borrowing for war purposes

[1] *Yale Review*, 1900. Article by N. T. Bacon.
[2] Footnote to Cannan's edition of *The Wealth of Nations*, vol. i. p. 93.
[3] *Yale Review*, 1900. Article by N. T. Bacon.
[4] Smart, *Economic Annals*, vol. i. p. 563.

rendered available a rapidly growing stream of capital for investment in other channels, and as the demands for development at home became less urgent compared with those from abroad, the outflow was destined to grow steadily—if not from year to year, yet from decade to decade.

Compare with Great Britain, Europe, and the United States. No industrial revolution had yet altered the character of industry. Beginnings, it is true, had been made in the introduction of steam engines, and the employment of machinery, especially in the United States. Cotton and woollen mills, iron furnaces and workshops, glass-blowing and pottery manufacture, sprang up fairly rapidly when America was thrown upon her own resources through disputes with Great Britain. But Continental Europe had meanwhile been suffering from the ravages of war, and it was only in the less disturbed parts that any advance could be made.

Though exhausted by her prolonged struggle, Great Britain was able, within the next generation, not only to put by vast amounts of capital for her own internal development, but also to supply a powerful stream of capital to assist her less wealthy neighbours. Western Europe and the United States were by far the most important fields of investment during this period, and British capital and finance were ever ready to lend a helping hand. Whether it was for insolvent Governments, or for States desirous of undertaking works of public utility, such as canals, banks, and railways, or for private enterprises and

companies requiring capital or skill, British energy and the British purse were always available at a price. Great Britain, moreover, was in the enviable position, until after the middle of the nineteenth century, of being the only country which was in a position to lend large sums for the assistance of its neighbours. This was the period of substantial British monopoly in the supply of capital to the world market. Dutch foreign investments, it is true, remained of some importance, the amount being approximately 350 to 400 million florins during the Napoleonic Wars, but the sum increased comparatively slowly after the wars were over.[1]

The conclusion of peace in 1815 was the signal for an immense rush to borrow. Security improved out of recognition the credit of insolvent European Governments, and they eagerly bid against one another for such capital as the exhausted state of Europe rendered available. London and some Continental centres were flooded with new issues, and great sums appear to have been subscribed. The amount of loans issued in Europe exclusive of England in the years 1817 and 1818 is given by Tooke[2] as follows:—

France	£27,700,000
Prussia	2,800,000
Austria	3,600,000
Russia	4,500,000
Total . .	£38,600,000

The large amount raised in France, we may note, was borrowed through Barings, and could only be

[1] *Economist*, February 15, 1913. [2] *History of Prices*, vol. ii. p. 94.

borrowed at an exorbitant rate of interest. It was intended to pay the war indemnity imposed by the Allies, and for other purposes, but the scarcity of capital in France was such that it had to be raised at rates equivalent to from 7½ per cent to 9½ per cent. The rate of interest was nominally 5 per cent, but the issue price varied from 52·5 fr. to 67·6 fr. The remarkable thing perhaps is that the money should have been secured at any price. Foreign Governments must have been substantially assisted by the withdrawal of capital invested in Great Britain for safe custody during the war. It is also supposed that a considerable amount of the French debt was actually subscribed in this country, and the same probably applies to the other debts in the table above.

The export of British capital appears to have been assisted by the commercial conditions of the time. The opening of Continental and American markets to British goods resulted in a huge outpouring of manufactures and colonial produce which had accumulated in this country during the war. The value of the colonial produce alone that had accumulated in this country between 1807 and 1814 is reckoned by Tooke to have been little short of 15 millions sterling.[1] As the Corn Law of 1815 hindered imports of foreign agricultural produce into this country, it would seem that a stimulus was given to the export of British capital. Imports were restricted, and exports were therefore not demanded in payment, so that the only practicable way in which goods could easily be disposed

[1] *History of Prices*, vol. i. p. 108.

of commercially was to lend them. The competition of British manufactures, however, was so severely felt by the "infant" industries of Europe and America that foreign Governments speedily imposed high protective tariffs upon imported goods.

But foreign countries did not forgo borrowing British capital, although the capital presumably had to be imported largely in the form of British goods. The table[1] which we give below tells a remarkable tale as to the expansion of this kind of investment up to the end of 1825. It shows the amount of loans raised for foreign Governments, the annual obligation thereon, the contract price and the extreme variations since the loans were contracted for until 1827.

[1] From *Statistical Illustrations of the British Empire*, London Statistical Society, 1827, p. 112.

[TABLE

Years.	Countries.	Amount of Capital created.	Rate per cent.	Annual Obligation.	Rate per cent of Contract.	Amount of Money raised by England.	Extreme Rates.	
							Maximum.	Minimum.
1818	Prussia	£5,000,000	6	£250,000	72	£3,600,000	99	71
1822	„	3,500,000	5	175,000	84	2,940,000	..	..
1820	Spain	3,000,000	5		47	3,820,000		
1821	„	3,000,000	5					
1822	„	3,000,000	5	700,000	54	3,240,000	74	8
1822	„	4,000,000	5					
1823	„	1,000,000	5		26	260,000		
1821	Naples	2,744,640	5	308,772	65	4,114,036	96	60
1822	„	3,430,800	5					
1822	Russia	3,500,000	5	175,000	70	2,250,000	99½	67½
1822	Denmark	3,000,000	5	150,000	77½	Cancelled by loan in 1825.		
1822	Colombia	2,000,000	6	120,000	84	1,640,000	96½	38½
1822	Chili	1,000,000	6	60,000	70	700,000	93	30
1822	Poyais	200,000	6	12,000	80	160,000	81	0
1822	Peru	450,000	6	72,000	88	396,000	89	23½
1824	„	750,000	6		82	615,000		
1823	Portugal	1,500,000	5	75,000	87	1,305,000	95	70
1823	Austria	3,500,000	5	175,000	82	2,870,600	99	80
1824	Greece	800,000	5	40,000	59	472,000	..	..
1824	Buenos Ayres	1,000,000	6	60,000	85	850,000	97	69
1824	Colombia	4,750,000	6	285,000	88½	4,203,750	96½	52½
1824	Brazil	1,200,000	5	60,000	75	800,000	91	51
1824	Mexico	3,200,000	5	160,000	58	1,856,000	88	50
1824	Naples	2,500,000	5	125,000	92½	2,312,500	95½	69½
1825	Brazil	2,000,000	5	100,000	85	1,700,000	91	51
1825	Mexico	3,200,000	6	192,000	89¾	2,872,000	94¾	60
1825	Greece	2,000,000	5	100,000	56½	1,130,000	58½	14½
1825	Denmark	5,625,000	3	168,750	75	4,218,750	97	51¾
1825	Peru	616,000	6	36,960	78	480,480	83	38
1825	Guatemala	1,428,750	6	85,714	73	1,042,897	74	50
1825	Guadalaxara	600,000	6	36,000	60	360,000	62	50

All the principal European States found it possible to drown their sorrows by imbibing freely the draught of British capital.

After 1820 the pace was speeded up, and the newly liberated South American States introduced themselves to the London market. A steady fall in the rate of interest, as exhibited in the rising price of Consols (which advanced from 73½ in April 1823 to 94½ in January 1825), and the conversion of 5 per cent stocks into 4½ per cents, produced a widespread desire for investments which would yield a higher return. The glowing accounts which were published as to the resources, promise, and good faith of South America, gave a direction to speculative activity,[1] and investors began to fall over one another in their eager rush to accommodate these new borrowers.

Speculative activity during this period was not confined to Government loans. Financiers struck out in a new direction, and excited the public imagination by wild accounts of the fabulous wealth of Mexican and South American mines. It was believed that British capital and enterprise needed only to be applied in order to make the gold and silver mines, which had been closed down before the revolutionary wars, more productive than ever. No less than seventy-four mining companies were formed during this period, with a total capital of £38,370,000. A Company mania developed similar to that which preceded the "Bubble" of 1720. Joint-stock enter-

[1] Tooke, *ibid.*, vol. ii. pp. 148-149.

prises were formed for every conceivable purpose, to carry on business at home or in the most distant parts of the world. Foreign and colonial enterprises other than mining concerns were, however, comparatively few in number. We may note, nevertheless, in addition to shipping companies, a Columbia Pearl Fishery Company, a Bengal Sugar Company with a capital of £1,000,000, a Honduras Indigo Company with a capital of £500,000, a Mexican Indigo Company, and companies for buying and selling land in Canada and Australia.[1] The following list of companies which were to be floated to conduct business in Great Britain or abroad is given by Gilbart: [2]

	Capital.
74 Mining Companies	£38,370,000
29 Gas Companies	12,077,000
20 Insurance Companies	35,820,000
29 Investment Companies . . .	52,600,000
54 Canal, Railroad Companies . . .	44,051,000
67 Steam Companies	8,555,500
11 Trading Companies	10,450,000
26 Building Companies	13,781,000
24 Provision Companies	8,360,000
292 Miscellaneous Companies . . .	148,108,600
626	£372,173,100

After the "boom" came a crash. Excessive capital commitments in foreign countries and at home were followed by speculation in commodities. Rising prices produced an influx of goods, and as the Bank of England had not yet learned how to

[1] "A list of Joint-Stock Companies, the Proposals of which are now, or have lately been, before the Public, 1825." (*Brit. Mus.*, 8227, c. 23.)

[2] *History and Principles of Banking*, p. 51.

call a halt by raising the discount rate, there was an efflux of gold to pay for imports and to meet calls on foreign loans. This eventually led to a financial panic attended by numerous failures, in December 1825, when the Bank of England had to borrow £2,000,000 of gold from the Bank of France. The decline in foreign loans and shares began earlier, for they had reached their highest point in January and February 1825. A rise in the rate of interest at home, the difficulty of paying calls, and a more accurate valuation of the security for the loans and shares, produced a rapid fall in May and June 1825.

The result of the foreign investments during the first decade after the great wars was very unsatisfactory. The European loans floated in this country were, it is true, with the exception of the Spanish issues, ultimately profitable speculations, and interest was regularly paid. But the money subscribed for the South American loans and mines was almost all lost. One of the few speculations which was finally successful was the Buenos Ayres loan, on which the Buenos Ayres Government paid up all arrears after the interest had been almost thirty years in default.

The position of British foreign investments after the boom is estimated in an interesting table taken from the *Statistical Illustrations of the British Empire*, which were compiled by the Statistical Society in 1827 :

Since the reserved funds have been appropriated, the dividends on the Spanish, Greek, Poyais, and most of the

South American loans have ceased to be paid, and the value of the stock is consequently reduced to zero.

		Annual Obligation.
Total amount of money advanced by England	£49,038,500	£3,702,196
In addition since the Peace of 1815, there have been Rentes created in France equal to £175,000,000 of 5 per cent Stock of which there is supposed to be held in England, about	36,000,000	1,800,000
And since the same period there is supposed to have been imported into England from the U.S.A. various Federal, Bank, Canal, and State Securities, equal to	9,000,000	545,010
In 1820 and 1822 there was also raised in Russia from 60 to 85 million of roubles effective =to 3s. 1d. each, a considerable portion of which is supposed to be held in England .	10,500,000	525,500
Making a total amount of money raised in England in the ten years 1816–25 on account of loans to foreign nations . .	104,538,500	6,577,096
But as about 15 per cent on an average has been reserved out of the thirty-one loans specially specified to form a sinking fund, and to pay the four or five first half-yearly dividends, there must be deducted about	11,538,500	577,096
Leaving in the aggregate .	£93,000,000	£6,000,000

In addition, during the years 1824–25 there were forty-one foreign mining and other trading ventures set up with nominal capitals to the amount of £32,840,000, on account of which upwards of £3,000,000 was actually paid, and the greater portion expended externally; which amount . . . resolves itself into a national loss.

That British foreign investments should have increased at the rate of anything like nine millions sterling per annum, during the ten years which followed an exhausting war, is an indication of the enormous capital resources of this country, and of the power of the London money market. But it may be noted that the estimate given above takes no account of the large withdrawals of foreign capital from the British funds and other investments in Great Britain, the place of which was filled by domestic capital. Nor does it take into account a large amount of private investment which was going on at this time, and the transference of capital and labour to Continental Europe, and to the United States. In 1834 it was reckoned [1] that the capital brought into Canada by settlers amounted to at least £1,000,000, and on this basis several millions must have been exported by emigrants from Great Britain during the decade after 1815.

These ten years were a period of very rapid industrial development both in Europe and America. Machine production became established, and the factory system was extended. "It is obvious," says the *Annual Register* for 1816, "that the spirit of internal improvement and productive industry is become so general . . . that no one nation must hereafter expect exclusive commercial advantages; and if England may still hope to maintain her superiority as a manufacturing country it must be by supporting a relative superiority in skill, know-

[1] Porter, *Progress of the Nation*, p. 130.

ledge, and enterprise." The British Government sought to maintain this superiority by prohibiting the emigration of artisans and the export of certain kinds of machinery. The machinery held in view in 1774 when the first Act was passed was that invented by Arkwright and Hargreaves, but legislation afterwards included all machinery for use in the woollen, cotton, linen, or silk industries, as well as models or plans thereof. The purpose of this legislation was, of course, to prevent foreigners from imitating our industrial processes, learning our trade secrets, or obtaining skilled artisans to instruct their workmen in machine production. But the object was not attained, for emigration, and the exporting of prohibited machinery, could not be prevented. In the two years 1822 and 1823, when the emigration was at its height, about 16,000 artisans were believed to have arrived in France from England,[1] and many others went to Germany and elsewhere. There was hardly a factory in the whole of Europe where Englishmen were not employed, and many works were owned by Englishmen.[2] Three engineering works near Paris were owned and almost entirely conducted by Englishmen, from 300 to 500 English artisans being employed in each. It was nearly always the most skilful artisans who were induced to migrate, and they were paid a good wage. Thus it was stated in 1824 that an English smith earning 6s. 6d. to 7s. in England, would in France get 10 fr. or 11 fr. a

[1] Committee on Artisans and Machinery, 1824. Evidence of Alexander.
[2] *Ibid.* Evidence of Martineau.

day; while a French smith would receive about 4 fr. a day for similar work. The main effect of the laws prohibiting artisans from emigrating was to impede their return through fear of the penalties imposed by the Acts. Nor was the administration of the laws prohibiting the export of machinery very stringent. Few seizures occurred, though they were not unknown. In November 1823 a large seizure of cotton machinery occurred in London. Any prohibited machinery, it was said, might be sent abroad with a little management, *e.g.* by mixing two or three machines together, so that no officer of customs or engineer could detect the nature of the machinery exported.[1] Another device was to export rough castings to be worked up by English artisans abroad. Much depended on the destination of the machinery, and one witness stated that there would be more freedom in sending machinery to South America than to France.[2] An important effect upon foreign investment was indicated by Francis Place,[3] who stated that when the Peruvians captured Lima the Spaniards destroyed the mint. Thereupon a number of British merchants at Lima and Callao agreed to form a company to undertake the coinage. The machinery could not be procured in Chili, and was purchased in this country. The mining companies established in South America also required large quantities of machinery, and the demand would have been very great if the laws against export here had been repealed.

[1] Committee on Artisans and Machinery, 1824. Evidence of Alexander.
[2] *Ibid.* Evidence of Galloway. [3] *Ibid.* Evidence of Place.

The movement of British capital and labour to Europe continued for many years after the Napoleonic wars. "There has been a very great tendency," said a witness [1] before the Select Committee on Import Duties in 1840, "for capital and labour to quit this country and settle in other countries. All the cotton factories in the neighbourhood of Vienna, in consequence of the cheapness of provisions, are in a very fair and prosperous condition; but the directors and foremen of those manufactories are chiefly Englishmen and Scotsmen from the cotton factories of Glasgow and Manchester. We find in France that the principal foremen at Rouen, and in the cotton factories, are from Lancashire; you find it in Belgium, in Holland, and in the neighbourhood of Liége; you find British capital going into Belgium, France, and Germany to a very great amount; and this very British capital employed there producing manufactures which meet us in the markets of the Mediterranean, the United States, Cuba, Porto Rico, South America, and the East Indies. English capital and English labour have gone into the New England manufactories."

There was one important difference, however, between the emigration to Europe, and that to the United States, for while in the case of the former the men who took their capital abroad or earned wealth by labour were not entirely lost to this country, but returned here after a few years of profitable effort,[2] the great majority of those who went to America

[1] J. M'Gregor, Secretary of the Board of Trade.
[2] The emigration laws were repealed in 1824.

never returned. But there was also, even in the ten years following 1815, an enormous inflow of capital belonging to absentees into the United States.

Foreign capital was freely invested in United States bonds, and one-third of the amount due for repayment in 1825–27 is stated to have been held by Europeans. It was feared that the repayment of the debt might even sweep away the metallic money of the country.[1] Foreign capital also went into American banks to such an extent that alarm sprang up lest banking should become concentrated in the hands of a few wealthy foreigners.[2] Consequently many States tried to bring it about that the majority of the stock should be held by residents in the State. Thus Pennsylvania in 1824 prohibited the transfer of stock to non-citizens of the United States; but this law was easily evaded and was repealed in 1836. The same State in 1825, when rechartering the Bank of North America, prohibited any foreigner, save a citizen of Holland, from holding stock unless he had declared his intention of becoming a citizen.[3] A period of rapid internal development set in from about 1825, however, under the leadership of the individual States, and foreign capital was in much demand. The success of the Erie Canal, completed in 1826, stimulated numerous other States to emulation, while the westward expansion caused the Eastern States to launch out in ambitious schemes, in order to retain their hegemony. Canals, banks, roads, and

[1] Bolles, *Financial History of the United States*, vol. ii. p. 311.
[2] United States Monetary Commission. *State Banking before the Civil War*, p. 22.
[3] *Ibid.* p. 28.

subsequently railways, were the objects of State expenditure, the undertakings being conducted either entirely by the States or by companies to whom they gave concessions and extended assistance. The States soon piled up enormous debts. In 1820 their total indebtedness had been only $12,790,728; in 1830 the amount was $26,470,417; in 1835 $66,482,186; and in the next three years it increased nearly threefold, to $170,000,000 in 1838. In 1840 it was about $200,000,000.[1] European holdings of State and corporation bonds and stocks were estimated by President Jackson in 1839 at $200,000,000, clearly showing the extent to which Europe, and especially England, had become interested in American development. The redemption of the American Federal debt in 1835 assisted the credit of States and other bodies in the later years when "bonds of all kinds, issued by the Bank of the United States, by various States in the Union, and by numerous private undertakings, were poured upon the English market and found eager purchasers."[2] The extravagant manner in which the borrowed money was spent resulted in indebtedness of $200,000,000 uncovered by assets,[3] and when, after the collapse of 1837, Mississippi and Florida repudiated their bonds, State credit on the London market soon sank to a low ebb. A movement sprang up in favour of an assumption of State debts by the American Federal Government, but this was not

[1] Bogart, *Economic History of the United States*, p. 195.
[2] Gilbart, *History, Principles, and Practice of Banking*, vol. i. p. 315.
[3] H. C. Adams, *Public Debts*, p. 331.

favoured by Congress, and achieved no result. One important consequence of the destruction of State credit, however, was to strengthen a current of opinion that the individual States should have nothing to do with remunerative internal improvements. Many States passed constitutional amendments to that effect, and after 1848 a similar clause was generally introduced into the constitutions of new States admitted into the Union. This, combined with the fact that many American companies found it quite possible to borrow in Europe, set the course of American development more definitely towards individual enterprise.

This extension of the field open to the foreign investor beyond the scope of Government loans was a significant fact in America, in Europe, and indeed throughout the world. The joint-stock company was coming to play an important part in the economic organisation of the world. Its development, it is true, like that of other features of modern industrialism, was more advanced in some countries than in others.

England, though not the inventor of the joint-stock principle, was at this time far ahead of other countries in applying it. The East India Company and the Bank of England were conspicuous early cases of joint-stock companies in this country. The Bubble period had seen the formation of ephemeral companies for every conceivable purpose. By Adam Smith's time, we know that banking, insurance, canals, and waterworks were considered suitable

for joint-stock enterprise. Joint-stock organisation was thus well known by the end of the eighteenth century, and the nineteenth century saw a rapid increase in the number of companies, despite legal difficulties. Laws, however, were gradually accommodated to requirements, and the introduction of limited liability made possible a great advance. In the United States a number of enterprises were run on associated capital from an early date, but these were almost entirely of a local character. Banks and canal companies also sprang up before the Napoleonic Wars, while for a few purely speculative undertakings, such as mines and oil springs, appeal was made to more distant capitalists even in Europe.[1] Numerous canal and railway companies were brought into existence, and the latter soon began to flourish exceedingly. Industrial companies, however, did not become common until the 'sixties.

On the continent of Europe the development of joint-stock companies was much slower. In France a discount company and a waterworks company were almost the only instances at the time of the Revolution. Under the Empire, the Bank of France, a company for a bridge over the Seine, two insurance companies, and a few industrial companies, were constituted; but nothing more was done till 1824–25, and it was not till the 'thirties that development on the joint-stock principle became at all rapid.

In Germany there were a few joint-stock banks in the eighteenth century, run with the help of the

[1] L. Joseph, *Industrial Finance*, p. 12.

States, to assist in overcoming currency difficulties, but no insurance company existed till 1812, though insurance was considered one of the most suitable enterprises for joint stock. The boom of 1824 was marked by the formation of a Rhenish West Indian Company and a company to exploit a Mexican silver mine, both of which failed. A steamship company was established on the Rhine in 1825, and another fire insurance company was set up about the same time. The first railway company was formed in the early 'thirties, but few industrial companies came into existence till the 'fifties, when two sugar factories were founded on joint-stock lines to meet the expense of the machinery and the risk. As early as 1837 some joint-stock companies existed in the cotton manufacturing industry of Saxony,[1] but joint stock in manufacture was uncommon in Germany until a much later date. In Austria and other parts of Europe the development of companies was even more tardy.[2]

Joint stock was all the more important from the point of view of facilitating foreign investment, in that the national debts of the world were growing very slowly during the second quarter of the century. It is reckoned that the national debts of the world amounted in 1820 to £1,530,000,000, of which the British National Debt accounted for more than half. By 1848 the total was only £1,730,000,000, and a considerable part of the increase probably took place

[1] Porter, *Progress of the Nation*, p. 425.
[2] Steinitzer, *Oekonomische Theorie der Aktiengesellschaft.*

in the years 1820–25. It is clear, therefore, that an extension of foreign investment by persons who were not themselves merchants or manufacturers, who did not wish to emigrate, for the purpose of investing their capital, and had no knowledge of trustworthy foreigners to whom to lend, was largely conditioned by the perfecting of new arrangements for investment. Joint stock was one solution of the difficulty, and when the railway era began to spread its influence over the world, the necessity for collecting very large capitals told strongly in favour of joint-stock as against individual enterprise. The question, however, whether railways should be undertaken not by joint-stock companies but by States themselves, which were also in a favourable position to borrow, was one to which the answer depended on the peculiar circumstances of each country. In some countries the balance of advantage was considered to rest with Government railways, in others with joint-stock railways; though even where the company form predominated, Governments usually played a more or less active part in guaranteeing interest, making grants of land, etc.

Railway development in the United States was at first, as we have seen, undertaken either directly by the State Governments or indirectly through companies which received State charters and grants of land and money. After the crisis in State borrowing in 1838, the States concerned themselves less in promoting the growth of railways. Yet British capital flowed steadily into American railroad

securities, as it had done previously into State securities. The equipment of the New England lines in the 'forties, and of the railways in the Middle and South Atlantic States and States east of the Mississippi during the 'fifties, was largely supplied from Great Britain, and paid for by the issue of bonds; and the aggregate value of British holdings at the beginning of the Civil War was immense.

On the continent of Europe railway construction began rather later than in the United States. Belgium was the first country on the Continent to enter upon serious railway development. The Government was authorised to undertake the work of construction, and the first line was opened in 1835. Later, railway building was undertaken by private companies authorised by the Government. The first railway in Germany was also opened in 1835, and by 1842 ten lines were constructed or had obtained concessions. Prussia decided in favour of joint-stock enterprise, but some of the other States, including Bavaria and Baden, themselves undertook the construction of their main lines. In France very little was done towards establishing a railway system until 1842, when a scheme was introduced by which the State provided the land, and companies equipped and operated the lines.

The 'forties, however, are mainly remarkable for the vast construction of railways in Great Britain. In 1845 when the railway "boom" was at its height, it was reckoned that a total sum of £64,000,000 had

been applied to the construction of British railways within the preceding twelve years, while the aggregate sum expended during the same period, including also Belgium, France, Germany, and America, was only £113,500,000. The demand for capital was thus mainly at home. It is not till the 'fifties that we find abroad a railway "boom" comparable to that which occurred in Great Britain during the 'forties.

But, despite vast requirements of capital at home for railway building and for a general extension in the framework of industry, British investors managed even during the 'forties to spare large sums for investment on the Continent; for the amount of capital available in Continental centres for investment was still comparatively small, though it was rapidly growing, owing to increasing wealth and the decay of hoarding. Millions of pounds were subscribed in London, principally for investment in Belgium and France. British financiers, company promoters, and engineers swarmed all over the Continent. Englishmen were prominent on the Boards of Directors of Continental railway companies, and some of the meetings of shareholders of the Belgian and French lines were regularly held in London.

British investment in other foreign enterprises was also stimulated. For railroad construction involved development of many subsidiary industries, notably coal-mining, and iron and engineering works. Before the era of joint stock, British investment in industries of this character had been largely effected by actual

emigration of capitalists who conducted their own businesses abroad. But now a large number of joint-stock companies began to be formed to exploit coal, lead, and copper mines on the Continent, to undertake the supply of gas and water, etc.

Further investment on the Continent was cut short for the time being by two catastrophes. Firstly, a financial crisis in 1847 called attention to the fact that projection of new railways had been excessive relatively to the capital available, for the flow of new capital was suddenly stopped. Secondly, the political disturbances on the Continent caused general alarm to investors. Continental securities generally fell to a very low level during the spring of 1848, and new issues came to an end. Everybody sought to realise his holdings. Large amounts of Continental money were sent over to England for safe keeping, as had been the practice during the Napoleonic Wars. English owners of Continental securities did their best during the latter part of 1847 and the early months of 1848 to withdraw their capital. "There probably never was a period," says the *Economist* of March 18, 1848, "at least for many years past, when so little English capital was invested in Continental securities or credits; the events of the last eight months having led to the realising of the one and the contracting of the other. Whether, then, we look to France only, or to Europe generally, there is much less English capital at stake than is usual." Nevertheless about £14,000,000 remained to be called up

on French railways, the total share capital of which was £30,686,000 at that time; and the proportion of shares held in England was still said to be extremely large.[1]

When political conditions on the Continent had become more settled, the flow of British capital recommenced, and attained dimensions never before reached. For the period was beginning when the great Continental trunk lines were built. In France alone almost £30,000,000 was spent upon railway construction in each of the six years after 1851, and in other countries the sums were probably nearly as great in proportion to the area. A large part of this capital was British, but the Continental investor also subscribed astonishingly large sums. The enormous improvements in industry during the preceding decade, and a great development in the means of communication, had swelled the incomes of people on the Continent. Frugal habits assisted accumulation, and the growth of banking tended more and more to render this capital available for investment. The early railways had proved a success, and Continental peasants began to bring their money out of hoards, and to employ it productively.

The increasing economic independence of France, in particular, is shown also in a growing capacity to dispense with British navvies and work-people for the actual construction of the lines. About 10,000 men are said to have been employed in building the Paris and Rouen Railway, which was one of the first

[1] *Economist*, March 4, 1848, p. 267.

large railway works on the Continent, and of these upwards of 4000 were Englishmen.[1] But when this line was extended to Dieppe, the labour was mostly French. In some of the more skilled employments, however, such as tipping and plate-laying and excavation in deep rock cuttings, Englishmen were still employed on the Caen line, which was constructed ten years after the Dieppe line.

Thus France was developing rapidly in the domain both of industry and of finance. She was indeed beginning to occupy that position to which her great natural resources, and the frugality of her people, made her entitled.

[1] Brassey, *Work and Wages*, p. 79.

CHAPTER VI

BRITISH AND CONTINENTAL INVESTMENTS

During the past half-century the capital market has become more and more international. If we look at the supply of loanable capital, we see a constant increase in the area from which it is derived: if we study the demand, we see a corresponding increase in the number of countries which make use of this capital. It is probable that the annual savings effected by the inhabitants of Great Britain are now greater than ever they have been;[1] but the savings of France, Germany, Belgium, Holland, and the United States have also grown enormously, so that Great Britain no longer enjoys her former unassailable position in what may be called the wholesale world market for capital. Other countries are rapidly drawing level—especially the countries to which England lent most largely in the earlier decades of the nineteenth century. British capitalists have thus to face a growing competition as lenders from those countries which were formerly borrowers of British

[1] The Director of the Census of Production estimated the gross savings of the United Kingdom in 1907 at from £320,000,000 to £350,000,000. Of this, however, 170 to 180 millions were required to maintain existing capital. See Cd. 6320, p. 32.

capital. But this competition is not complete. There is a tendency, as we have already seen, for investors of different countries to specialise in different kinds of investments, and to pay a different degree of attention to different geographical areas of investment. The nature of the forces at work has already been discussed, and in the present chapter we shall merely attempt to give a brief historical sketch of the manner in which competition and specialisation have developed.

British investors, compared with investors in other countries, have generally acted as pioneers in discovering and opening up new fields for development, unless the investors of other nationalities have possessed peculiar advantages of a political, economic, or geographical kind. Continental investors have to some extent followed in the footsteps of British investors, purchasing those kinds of securities which ignorance or caution had originally prevented them from buying. There has thus been a process of transference by which British capital has been able continually to advance into the more distant and less developed parts of the world. This "pioneer" character of British foreign investment is mainly attributable to the willingness of many British investors to assume risk, to the extensive trade relations of Great Britain, to the experience which has been gained, and to the advantages which British capitalists enjoy for investment, owing to political, racial, and economic ties with other parts of the world.

The extension of foreign investments during the past half-century has also been accompanied by an increase in the variety of uses for which the capital has been supplied. The demand has continued to be mainly for railway construction. But the list of other enterprises has been extended almost indefinitely. Important openings for British and other capital have been found in banks, finance, land, trading, mines, plantations, telegraphs, irrigation, docks, municipal works, and even manufacturing. As before, the demand for capital has been focussed through public bodies, or through joint-stock companies, or through private individuals. Investments through individuals are, however, comparatively unimportant, if we exclude the capital carried with them by emigrants. Money is not frequently lent by an individual in one country to an individual in another. Foreign individuals are in most cases accommodated through the means of joint-stock enterprises such as banks and finance companies, which have grown up apace. Such organisations are often international in character: they are companies incorporated according to the law of one particular country, but carry on business in other countries as well.

Such international businesses have become more and more common, and have come to play an increasing part in foreign investment. The organisation of business on a large scale has made it more and more difficult to cramp a concern within political boundaries. The desire of investors to secure a

higher return by investing in businesses abroad, while retaining substantial control over the management, was probably the dominant motive making for international companies in other cases. A foreign plantation or mine, for example, whose capital is supplied by British investors, is often more conveniently run by a company registered in Great Britain than by one with its seat of management elsewhere.

Before the age of steam and the telegraph, indeed, the difficulties in the way of managing a business from a distance were very great, and in many cases, no doubt, insuperable. But cheaper, quicker, and more regular communication has diminished the obstacles and assisted the development of such international companies; though even now they are at a disadvantage compared with companies which are controlled on the spot, in those industries in which flexibility and quick adaptability are required in the management. The first international companies were trading companies and shipping companies, in which the facilities for management from a distance were great. Mining was conducted by British companies operating in South America and elsewhere early in the nineteenth century; and land improvement and mortgage companies also sprang up for conducting business in Australasia and Canada during the second quarter of the century. The growth of railways in various parts of the world offered another favourable field for the British company. In all these enterprises it would seem that

the difficulties of management from a distance were comparatively small, though it was stated that in the case of the Indian railways the system of management from a central Board in London was productive of much delay and expense; and the same was probably true elsewhere.

The last half-century has witnessed an enormous increase in the importance of the international company, in railways, mining, tramways, water, gas, electricity, banking, insurance, finance, land plantations, and other enterprises. The international company has even extended to manufacturing, but therein it is still somewhat rare, showing that the difficulties of management have not yet been fully overcome. There have also been in some countries legal difficulties in the way of alien joint-stock companies, and even to-day they may be treated differently from native companies. During the 'sixties a number of treaties were negotiated between the principal European countries on this matter, laying down that companies constituted according to the laws of one country were enabled to exercise all their rights and appear before the tribunals throughout the dominions of the other Power, provided they conformed to the laws in force there. It thus became an established principle of private international law that a corporation duly created in one country is recognised as a corporation by other countries,[1] though this does not mean that foreign companies are treated on the same footing as native companies in every respect,

[1] Dicey, *Conflict of Laws*, p. 484.

that conditions cannot be imposed, or that permission to carry on business cannot be refused. Sometimes foreign companies are viewed with suspicion in the Courts, if it is suspected that they have been formed abroad in order to escape more rigorous rules laid down for native companies. But, generally speaking, the question where a company shall be registered has come to be largely determined by conveniences of management and by the facilities and flexibility of various company laws, rather than by the mere nationality of the people among whom it operates.

While joint-stock enterprise, as an agency for focussing the supply of, and the demand for, capital has come very much to the fore during the past half-century, borrowing by public bodies has also been extremely active. Money has been raised, not only by national Governments all over the world, but also to an increasing extent by provincial and municipal authorities. A vast strengthening of public credit all over the world has accompanied economic development, and public borrowing has been mainly devoted to promoting this development. National loans for war, armaments, and other wasteful purposes, have absorbed huge sums, but much the greater part has been utilised for constructing railroads, for irrigation, etc. To similar useful purposes the loans of provincial and municipal authorities, which have become especially prominent in the past generation, have been devoted, probably with few exceptions. Default and repudiation have been by no means unknown. But here again economic development

has greatly multiplied the number of countries and public authorities which are able and willing to meet their liabilities, while the desire for further loans also acts as an inducement to fulfil previous engagements. No doubt there has also been a diminution in the carelessness of investors, as well as improvement in market organisation, so that information as to the credit of various States and public bodies is more widely disseminated, and effective steps can be taken to bring pressure to bear upon defaulters. The organisation of the Committee of Foreign Bondholders in 1872 to watch over the interests of lenders, and to make representations to defaulting States, certainly tended in this direction. Bondholders have sometimes also succeeded in enlisting the aid of their own Governments to place political stress upon defaulters. From one cause or another the area of default has been greatly diminished during the past fifty years, so that Central American Governments are now the only ones in which default is common. Some other Governments, including Greece, Egypt, and Turkey, have had the administration of their debts partially or wholly taken out of their hands. Default by provinces and other local bodies is more widely distributed than that of national Governments. It still exists in the United States, and is liable to break out over a large part of South America. Several of the Southern United States have been in default on bond issues for from forty to seventy years, and in one or two cases constitutional amendments have been passed by the State

Legislatures prohibiting the recognition of the debts. Municipal defaults are comparatively rare. The chief examples are probably those of the Argentine municipalities during the collapse of the early 'nineties. The list included Buenos Ayres, Cordoba, Rosario, and Santa Fé.[1] It is, however, common for provincial or State Governments to guarantee or control municipal issues in such a way that they cannot default.

We come now to consider in some detail the movements of British and European capital within the period with which we are now dealing.

During the 'fifties, as in earlier decades, the flow of British capital was mainly directed towards the continent of Europe and the United States, for purposes of railway construction. In the United States the rails and equipment were largely imported from Great Britain, and paid for by the issue of bonds, and at least one company, the Illinois Central, which dates from 1851, was controlled through its share capital from abroad.[2] In 1857, £80,000,000 of American railroad stock was computed to be held in England. For European lines, as we have seen, British investors subscribed huge sums of capital, and many of the Belgian and French lines were controlled by British capitalists; while in addition a great number of subsidiary enterprises—particularly coal and iron mines—were developed by British companies on the Continent.

Meanwhile the capital of the inhabitants of these

[1] See Annual Reports of the Corporation of Foreign Bondholders for 1891 and 1892.

[2] W. Z. Ripley in New York *Journal of Commerce*, December 6, 1911.

countries was itself increasing at a prodigious rate, while the growth of banking and finance concerns assisted to mobilise it and to direct its application. In France the advance was exceptionally rapid, as is seen by the fact that the number of depositors in the Savings Banks increased nearly threefold between 1852 and 1869, from 742,889 to 2,130,768. French capital played a very important part in internal development under the leadership of big credit institutions which were then springing up. French capitalists also began to buy back the French railroad securities held in Great Britain. So speedy was the growth of financial power that France soon paid attention to openings for investment in other countries. The Crédit Mobilier, founded in 1852, took the lead, and assisted in the construction of railways in Austria and the north of Spain.[1] The first railway concessions for Algeria were also granted in 1856, while 1854 is notable as the year in which Ferdinand de Lesseps obtained from Said Pasha authority to construct the Suez Canal. The first issue of 200 million francs in 400,000 shares of 500 fr. each was made in 1858. French investors subscribed 52 per cent of this capital, while nearly all the rest was taken by the Egyptian Government. Thus the French capital market was rapidly advancing towards the position, which it came to occupy during the 'sixties, of co-equality with London in a great part of the foreign investment business.[2]

[1] Levasseur, *Histoire des classes ouvrières*, vol. ii. p. 179.

[2] It may be noted that foreign investment was not entirely new to France, for a few foreign loans had been quoted on the Paris Bourse for

Holland was also advancing rapidly as a foreign investing country. The Napoleonic Wars, as we saw, severely crippled Dutch economic prosperity; but when peace was restored the Netherlands played an important part in supplying the requirements of needy Governments, as well as in lending money for purposes of development in the United States. The dispute with Belgium, however, caused a set-back during the 'thirties, and for some years Holland had comparatively little to lend. The railway manias in the 'forties and 'fifties gave a new stimulus to foreign investments, and the aggregate amount of Dutch foreign capital in the late 'fifties was estimated at 760,000,000 fl., or say £60,000,000—a large sum for so small a nation.[1] The borrowing activities of the 'sixties and 'seventies carried the amount very much higher. The direction of Dutch foreign investment closely resembled that of England. The loans of the Latin American states were quoted quite early in Amsterdam, for in the 'thirties Mexican and Columbian loans were dealt in, and by the 'fifties Peruvian, Venezuelan, and Brazilian loans were also quoted. The speculator and speculative investor was attracted during the 'sixties by American railroad bonds and shares. Much money was lent in Europe

many years. As early as 1811 a Saxon 6 per cent loan was dealt in, though it disappeared in the same year. But foreign securities were subsequently prohibited on the Bourse till 1823, the sole exceptions being English Consols, and a Neapolitan 5 per cent stock. The speculative boom of 1823–25 resulted in the introduction of several foreign stocks, including a Prussian 3 per cent loan, an Austrian 5 per cent, Baden lotteries, and a Spanish 5 per cent stock. Some more doubtful foreign stocks were also issued, such as a Haytian loan for 30 million francs in 1825. As late as 1848, however, only six foreign loans are said to have been quoted.

[1] *Economist*, February 15, 1913.

too, but, as in the case of England, European loans tended somewhat to go out of favour with the Dutch investor in the last quarter of the nineteenth century, more attention being directed to Japan, China, and South America. Dutch holdings of European securities, however, have probably remained of greater relative importance than British holdings of the same securities.[1]

The rise of the German financial market was somewhat slower than that of the French. Germany was till quite late in the nineteenth century a poor country. Capital was lacking for internal development, and the sums available for foreign investment were for a long time small. A few foreign loans were bought and sold as speculative counters on the Frankfurt Bourse, which was till after 1870 the most important in Germany. In addition to the issues of German states, Dutch, Spanish, and Polish Government loans were dealt in about 1850. Austrian loans appeared later, and as many as ten were dealt in in 1863,[2] a considerable business being regularly transacted in some of them. By 1854 two Austrian banks and an Italian railway were also quoted on the Bourse.[3] But little capital was yet available for external development. As in France, there was great activity during the 'fifties in financing internal railway construction, banks, mines, engineering works, etc. Germany, in fact, experienced her first great boom.

[1] For information on Dutch foreign investments the author is indebted to Mr. S. Metz of Amsterdam.

[2] *Geschichte der Frankfurter Zeitung*, pp. 106-127.

[3] Steinitzer, *Oekonomische Theorie der Aktiengesellschaft*, p. 37.

The strength of American finance was put to a severe test during the Civil War. Before the Civil War began the public debt amounted to less than $70,000,000: on January 1, 1866, it stood at $2,773,000,000. The greater part of this sum was raised in America; though that meant, of course, that development in other directions was almost suspended, and that a severe burden was placed upon the population. Foreign investment in the United States during the greater part of this period was sharply curtailed. For the outbreak of war was followed by a panic among foreign investors and an extensive transference of securities hitherto held abroad. The judgment of English and French investors was affected by prejudice in favour of the Confederate States, preying upon ignorance as to the inherent strength of the North, and a belief, perhaps, that, whatever the result of the war, America would be crippled for many years to come. Every kind of American security, national, State, and corporate, was suddenly flung back upon the American market for sale at almost any sacrifice; and by 1863 the United States was said to exhibit a clean national ledger in respect to foreign indebtedness.[1] Nor could English or French investors be persuaded to subscribe to the Union loans, although a Confederate loan of £3,000,000 was subscribed at 90, the rate of interest being 8 per cent. The whole of this was ultimately lost.

The only European country from which the

[1] *Report of Special Commissioner of the Revenue, 1869*, p. xxvii.

United States was able, during the first years of the war, to secure assistance was Germany. There had been a large emigration from Germany to the Northern States for many years past, and a considerable trade was carried on. Personal and business relations, and the absence of any political prejudice in favour of the South, led German investors to take up a considerable amount of United States bonds.[1] The investments were made through Frankfurt, the money being partly withdrawn for the purpose from Austrian securities. There is some reason to suppose, we may note, that these Austrian securities were taken up in Great Britain, for just at this time British interests in Austria increased; and a good deal of British capital was invested in Austrian undertakings and railways, the Lemberg Czernowitz Railway in particular being built almost entirely with English money.[2]

As the issue of the American Civil War became clearer, English and French investors seem to have come in as purchasers of United States bonds. The amount of these held abroad in 1869 was estimated[3] at $1,000,000,000, compared with only $350,000,000 in 1866, and the earlier issues of United States securities had almost entirely disappeared from the American market. The rapidity with which foreigners replaced their investments in the United States is further indicated by the fact that Mr. D. A. Wells, the Special Commissioner of the Revenue, estimated

[1] Bolles, *Financial History of the United States*, vol. iii. p. 328.
[2] *Economist*, February 21, 1891.
[3] *Report of Special Commissioner of Revenue, 1869*, p. xxvii.

foreign holdings of State securities in 1869 at $100,000,000; of railway bonds at $130,000,000; and of railway shares at $113,000,000. Including other foreign investments in the United States, Mr. Wells reckoned the total foreign holdings in 1869 at $1,465,500,000 or about £293,100,000—the annual interest on which, at an average of 6 per cent, is £17,586,000. By far the greatest share of this belonged to British investors, but substantial amounts were also held in Holland and Germany. Though some German investors sold out their American bonds after the war, the majority held them until redemption. The large profits which they reaped through their venture, moreover, induced German investors, as their loanable capital increased, to cast a favourable eye upon American railroad bonds and stocks, the chief German centre for which remained at Frankfurt, on which market the Government bonds had first been introduced.

Increasing competition in the older fields of investment of Europe and America, the constant and rapid growth in the annual output of floating capital, and the opening up of promising but more distant fields of enterprise, caused a gradual change in the direction of British investment. It would probably be untrue to say that less British capital went to Europe and America during the 'fifties and 'sixties, but it is certain that more went to other destinations. India in particular, and to a smaller extent Canada and Australia and other countries became more important than before, the main object of investment being the railway.

In India, as in many other countries, railway construction was considered too risky for unassisted private enterprise, owing, doubtless, to the poverty of the inhabitants and the limited extent to which trade was carried on. Political considerations in a strange and distant land probably also acted as deterrents to English capitalists, while native enterprise was undeveloped. Railways, it might have been expected, would be built by the East India Company during the 'forties. In 1844, it is true, a project was submitted to it for a line from Calcutta to the North-West, while almost immediately after another scheme was submitted for a line from Bombay towards the interior.[1] The East India Company, however, was debarred by its Charter from raising a loan for these purposes,[2] and the difficulties in the way of organisation were unsolved at the time of the crisis of 1847, which put an end to the possibility of borrowing for the time being. Eventually a system was evolved by which the East India Company (after 1857 the Government of India), granted all land required, free of expense for ninety-nine years, to companies incorporated by Act of Parliament in England, and guaranteed interest, generally at 5 per cent, upon the capital employed. The necessary stimulus to private enterprise was thus applied, and by July 1858 seven distinct companies were engaged in constructing lines under the guarantee system. The length of line open in that year was 428½ miles ;

[1] *Report from Select Committee on Causes that have led to delay in the Construction of Railways in India, 1858*, p. iii.

[2] *Ibid.* Q. 4024.

in 1860, 839¼ miles; and in 1874, 6227¾ miles. The nominal value of the Indian railway securities quoted on the London market in 1872 was estimated at £90,000,000, so that capital had flowed into Indian railways at the average rate of about 6 millions per annum, almost the whole of which was subscribed in this country.

In Canada there had for many years been some investment of capital belonging to British owners. As early as 1792 a banking company had been formed by English firms and Montreal merchants, but it did not survive long. In the later 'twenties of the nineteenth century there had been a considerable influx of capital for the development of public works undertaken presumably by the provincial Governments, and during the 'thirties, coincidently with the boom in the United States, further sums were subscribed for banks and land speculation. During the 'fifties development proceeded at a faster pace; 1500 miles of railway were constructed in the six years 1852–58, and the bulk of the $60,000,000 required for railways and canals is stated to have been derived from this country.[1] A modification in the banking law which enabled the existing banks to increase their capital, and to transfer their shares and pay dividends in Great Britain, also facilitated a considerable investment in these enterprises.

In Australia a similar process of gradual development had been going on. A few banks, land improvement and investment companies, and a number of

[1] *History of Banking in Canada*, p. 66. U.S. Monetary Commission.

mines had enlisted the support of British capital. The discovery of gold in 1851 caused a great influx of population and gave an impetus to investment in mining and in other directions. The first railway began to be constructed in 1850 by a company, but did not prosper, and was purchased by the Government. Other lines were also undertaken, but progress was slow until 1875.

The importance of foreign investment became generally greater in the 'sixties and early 'seventies. The recovery of America from the effects of the Civil War, and the rapid repayment of the public debt, rendered a large liquid capital available for investment. In Europe also savings were unprecedented, for the 'fifties had seen a revolution in the means of transport. A very large proportion of this capital was absorbed by Governments in waging war, for this period produced six costly campaigns. Between 1862 and 1872 it is said that the debts of foreign States almost doubled. In addition to the American Civil War, which added £450,000,000, the Austro-Prussian War added £60,000,000, the Paraguayan War £40,000,000, and the Franco-German War £390,000,000. These four wars accounted for almost half of the increase during the decade, while the French campaign in Mexico, and the Danish war added further important sums. The remainder of the increase was principally attributable to Turkey (130 millions), Egypt (70 millions), Spain (220 millions), Portugal (40 millions), Italy (200 millions), and Russia (110 millions), all of which borrowed, ostensibly at any rate, for works of

internal development — notably for railways. The Colonies appeared upon the market for the first time as borrowers of important sums: all the principal South American States were to the fore, and Japan and Roumania began to enjoy the luxury of a national debt. A huge boom set in during 1870, reached its height with the French war loan of 1872, and culminated in 1874 in the default of a number of countries which had borrowed too largely, and in the severe embarrassment of many others.

The fashion arose of issuing loans simultaneously in London and one or more Continental financial centres.[1] The French war indemnity loan of 1872 was issued in London, Paris, Amsterdam, Antwerp, Hamburg, Cologne, Frankfurt, Vienna, Geneva, and Berlin, and the total amount of £120,000,000 was covered five times over by French capitalists, and seven times over by foreign subscriptions, principally from England and Germany. The result of the loan remains as an astonishing proof of the power of international capital, although it is certain that the actual volume of subscriptions greatly exaggerated the amount of loanable capital which was actually available. Many of the applications were speculative and were stimulated by the gigantic boom which

[1] Thus in the year 1865 an Italian loan for £8,000,000 was issued simultaneously in London, Paris, and Lyons; a Peruvian loan for £10,000,000 was issued in London and Paris; a Brazilian loan for £5,000,000 was issued in London and Amsterdam; a Buenos Ayres loan for £2,500,000 was issued in London and Amsterdam; a Russian loan for £6,000,000 was negotiated in London and Amsterdam; a Spanish loan for $50,000,000 was offered in London, Paris, Madrid, Hamburg, Frankfurt, Brussels, Antwerp, and Vienna; and the Mexican Maximilian loan of £10,000,000 was issued in London and Paris.

accompanied the close of the Franco-German War. The magnitude of the French subscriptions is accounted for by the fact that the peasants' hoards of France were poured into the market to support the national credit, thus acting as a further step in the education of the French investor. The French Government was also assisted in floating its great loans by the enormous volume of foreign securities held in France. At the time of the war, M. Léon Say estimated the value of the coupons on foreign securities payable in France at 600 to 700 million francs, so that the capital value, reckoning at 5 per cent, would be 12,000 to 14,000 million francs or, say, £500,000,000. At the end of the war many French holdings were sold abroad. The coupons on Italian Rente paid in Paris amounted, in 1869, to 40 million francs. In 1874, however, the amount was only 25 million francs. The Turkish coupons decreased similarly from 3,265,612 fr. in January 1870, to 728,181 fr. in July 1873, and like declines were believed to be exhibited in French holdings of Austrian, American, Egyptian, Spanish, and other foreign stocks.[1] Some of these stocks were perhaps sold to Germans, the payment of the indemnity being to that extent indirectly accomplished by a reduction of French foreign investments.

The gigantic boom of the early 'seventies was not confined in scope to Government loans, which, indeed, formed but a fraction of the whole demand for capital. In America, railroad construction went

[1] *Bankers' Magazine*, 1876, p. 891.

ahead at an unprecedented rate, and railroad bonds were eagerly bought up in Europe until the crash in the autumn of 1873. In 1876, after numerous failures, and after considerable withdrawals had probably taken place, it was nevertheless estimated that European holdings of American railway stocks and bonds amounted to $375,000,000,[1] against $243,000,000 in 1869. On the London market there was a vast demand for capital for British railway companies, for ironworks, mines, and innumerable companies at home, as well as for submarine cables, shipping companies, foreign and colonial railways, mines, and other enterprises. Germany experienced an industrial boom of extravagant proportions. Companies were floated with every conceivable object and an immense inflation set in, puffed up by the French war indemnity, which placed in the hands of the German Government, and ultimately of the German people, a great amount of capital for investment. A part of the indemnity was used to pay off debt incurred during the war. Another part was employed in reforming the currency, and placing it on a gold basis, but a further portion was not expended for a considerable time and was lent presumably through the banks to traders.[2] The result, as we have seen, was an immense stimulus to German industry, especially to banks and to the heavy industries of coal and iron. Capital also flowed into Germany from abroad [3] to partake in the prosperity.

[1] *New York Journal of Commerce*, December 6, 1911.
[2] Giffen, *Essays in Finance*, vol. i. p. 53.
[3] *Economist*, "Commercial History of 1872."

A good deal of German capital, however, was also invested outside Germany. Austrian and Hungarian securities, which had been neglected by German investors since the time of the American Civil War and the Austro-Prussian War, received fresh attention, and German capital was placed especially in railways and banks. There was at the same time an influx of Turkish Consols, and Russian railway and Government securities. A considerable amount is even said to have flowed westwards into British railway securities, and American railroads were doubtless not neglected. But the severe depression which followed the boom crippled the German investor, and frightened him as it did the English investor; and it was some years before any further extension of external investments by English and German investors took place.

In France the havoc wrought by the war had to be made good, and this was a first charge upon the national capital. Paris, therefore, forfeited for a time its position of equality with London in the foreign loan market, and for a period of years very few new loans indeed were issued. But internal recovery was extraordinarily rapid, and capital was at once devoted to the repurchase of Rentes held abroad, so that foreign holdings soon became unimportant. It is probable also that there was soon again an active extension of foreign investments, for Leroy Beaulieu calculates that, in 1880, France had at least £480,000,000 invested abroad, and probably £600,000,000.[1] These figures are remarkable, when

[1] Neymarck, *Finances Contemporaines*, vol. vii. p. 240.

it is remembered that before 1850 French foreign investments were of little account: they would suggest that French investments had increased at an average rate of 15 to 18 millions per annum, despite the war.

In Great Britain the recovery of the investment market was slow. The slump had been exceptionally severe. Many American railways had defaulted in 1874, while about the same time several Governments failed to meet their interest charges. Peru defaulted for 26 millions, Turkey for 89 millions, and a number of Central and South American States for smaller sums. The amount of debt in total default was stated before the Royal Commission on the Stock Exchange at £157·2 million, and that in partial default at £66·2 million. Money, it was found, had been flagrantly misapplied, and the scandals connected with foreign loans shook public confidence. The strain to which borrowers at fixed rates of interest were put was increased by the prolonged fall of prices, which began in 1873, for foreign States and companies which had issued bonds had to make their debt payments in an appreciated currency. Investment in home industry, however, according to Sir Robert Giffen, showed no falling off during the period of depression, except in mines and ironworks, and this was no doubt attributable to the lessened demand for iron goods consequent upon diminished foreign investment. For some years, as will appear later, there was actually a net import of capital into this country, owing probably to the repayment or sale

of securities previously owned here. The case, as it presented itself to an observer[1] in 1878, was as follows :—

> Together with the amounts currently owned for goods, the total of our external possessions in the year 1872 may be stated as amounting to £1,100,000,000. From this total sum we derived a revenue of about 65 millions.
>
> Our real surplus on international wealth has increased at the rate of from £10,000,000 to £30,000,000 a year in a steady non-phantastical way.
>
> Until 1873 we were in the habit, so to speak, of reinvesting the £20,000,000 (or thereabouts) actual surplus in lending it out again. But for the last five years no foreign loans of importance, or railway stock, or company capital have been raised in this market.
>
> Many investors are calling in their claims from abroad, and the realisation of capital is a far more telling process than the mere ratio of decline in interest or income derived from the total.
>
> The case, as it presents itself, shows that we must have paid away during the last three years, a minimum sum of £101,000,000 by way of deduction from our international wealth.

A great part of this money, however, was merely withdrawn, presumably for investment at home. The losses caused through defaults, too, were in the long run almost insignificant compared with the large gains derived by British investors over the whole field of foreign and colonial securities. By 1881, it was found that, not only had foreign Government stocks been a profitable holding to British investors taken as a whole, after deducting the losses

[1] Seyd, "Our Wealth in Relation to Imports and Exports, and the Causes of the Decline in the latter"—paper read before the Society of Arts, April 5, 1878.

incurred upon defaulting securities, but that they had been more profitable than colonial Government bonds, in spite of the fact that no colonial securities were, or had been, in default.[1] Arrangements were, moreover, come to with some of the defaulters for the service of their loans by which the losses of bondholders were diminished. Thus, in 1881, the Turkish debt was handed over to be managed by an international commission.

Some of the most speculative investments of the boom period, however, did not turn out so satisfactorily, for it was stated that out of 100 mining companies whose names appeared in the *Investors' Monthly Manual* in 1870–71, not more than 10 existed in 1881.[2] But in spite of pessimistic laments during the later 'seventies, it is clear that the losses of British foreign investors were insignificant beside the immense capital at stake.

Mr. Nash gives the following estimate of British investments in Home and Foreign Securities, indicating that British holdings of foreign and colonial securities amounted in 1881 to at least 1250 millions, the income from which was 52½ millions :—

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[1] R. L. Nash, *A Short Inquiry into the Profitable Nature of our Investments*, p. 9.

[2] Nash, *op cit.* p. 116.

[TABLE

	£ Principal.	£ Interest.
Home Government Stock, Bank Stock, etc.	750,000,000	27,500,000
Indian Government and Railway Stocks	180,000,000	8,000,000
Colonial Government Debentures, City Loans, etc.	145,000,000	7,000,000
Foreign Government and Corporation Stocks	700,000,000	25,000,000
Home Railway Stocks, Shares and Bonds	720,000,000	31,500,000
Colonial and Foreign Railway Securities	200,000,000	10,000,000
Home Bank Shares	65,000,000	7,800,000
Colonial and Foreign Bank Shares	25,000,000	2,500,000
Insurance Property	25,000,000	5,000,000
Gas and Water Securities	70,000,000	5,500,000
Telegraph Companies	30,000,000	1,700,000
Home City Funded Borrowing	140,000,000	5,500,000
Other Securities of all kinds	400,000,000	20,000,000
	3,450,000,000	157,000,000

By 1881 conditions were again favourable for investment abroad. As during the early 'seventies, foreign and colonial Governments began to be supplied with vast sums for purposes more or less remunerative. In Europe, Russia, and Italy were heavy borrowers, but British investors showed a pronounced tendency to avoid European loans as permanent investments. In the case of Russian bonds, general causes of dissatisfaction were intensified by a special political cause. Until about 1875 Russian bonds had been much favoured in England, but the events of 1876–78 in the Near East caused a change of feeling, and Russian borrowing ceased to be effected in London, while British holdings of Russian bonds were largely sold in Germany and France. The Afghanistan dispute caused further ostentatious sales by British holders, and Continental investors again came in as

purchasers. As regards other European Government securities, British investors were perhaps partly influenced by the risks which attached to them from political causes, but the main reason why there was a tendency to avoid them was the greater attractiveness of many new countries for investment purposes. The French and the German investor, on the other hand, did not have such a wide outlook. They were poorer, and their countries were not connected by such close commercial and political ties with distant parts of the world as was Great Britain. The French investor demanded security and was quite willing to forgo a high yield: he invested, therefore, predominantly in European Government loans.

The German investor was more willing to accept risks in return for a good yield, and tended to invest more largely than the French investor in somewhat risky Government bonds. Egyptian Unified—a speculative security at that time—were introduced on the Frankfurt Bourse in 1882, and on the Berlin Bourse in the following year. Shortly afterwards German holdings were reckoned at £15,000,000. In 1884 two Servian loans were floated in Germany. Russian bonds were also taken up in large quantities.

For British capitalists two fields of investment became particularly prominent—Australia and South America. In Australia, the Governments pursued an active policy of development, and piled up enormous debts for the construction of railways, docks and harbours, etc. In addition, numerous non-Govern-

mental enterprises were fed by British capital. Banks increased in number, an array of land, finance, and loan companies was established, mining projects were multiplied, and the newly-invented refrigerating process was largely indebted to British capital for its rapid progress. In South America, British capital investments in banks and railways were estimated in 1886 to be more than three times as great as they had been ten years earlier.[1] The total amount was reckoned at £52,855,000, of which much the greater part was in Argentina and Brazil. The market value of outstanding South American Government and provincial loans at the same date was reckoned at £58,223,000, after deducting a small amount of what was then called rubbish, including Ecuador, Paraguay, and Peru bonds.

In Canada the pace of development was hastened; this was the period when the building of the Canadian-Pacific line across the Continent was undertaken, and there was a big demand for capital for railway construction. The absorption of American railway securities in Great Britain continued steadily except for a slight lull in 1883, and the income derived from Indian railways began to increase again as more capital was invested in them. In South Africa the gold and diamond discoveries of 1884–85 resulted in a forward movement, somewhat similar to that going on elsewhere. Hundreds of mining enterprises were floated in the years following the discoveries, and many millions of capital were invested. Mines

[1] *Economist*, January 23, 1886.

necessitated railways, and lines began to be projected, but the period of most active construction did not come till later.

The boom in South African mines seemed to be the signal for unhealthy inflation in other countries, notably Australia and South America. The price of land in these new countries was rapidly driven up under the influence of a host of banks, land, mortgage, and trust companies, whose appeals to British and European investors were only too successful. The Argentine "Cedulas," representing advances made by the Provincial Bank of Buenos Ayres and the National Bank upon the security of the land, began to flow in, and were purchased in very large quantities by British investors. Speculation was by no means confined to British investors. Continental investors went wild over South African gold-mines, and although the restrictions on some Bourses hampered the introduction of mining shares, that merely served to divert the trade to other channels, and a large business on Continental account sprang up in London. In France this was the era of the Panama Canal, the attractiveness of whose issues was largely bound up with the name of de Lesseps, the engineer and promoter of the Suez Canal. German investors were also affected by the Panama mania, but to a slight extent only. They were also involved in the South American boom, when their ardour for Russians had somewhat cooled; but many of the most risky issues were wisely sold in Belgium, while prices were still at a high level.

The boom was followed by a series of crises in various parts of the world, which damped down the export of capital for some years to come. The first shock was the Argentine collapse in 1890–91, following the outbreak of a revolt in Buenos Ayres. Every bank except the London and River Plate Bank came to grief, the Argentine Government itself defaulted, and most of the provinces followed suit.

The Argentine collapse was followed by a slump in South African mining shares and paralysis in Australia, where the financial weakness of the State Governments became manifest, and the failure of several banks, building and land companies involved British investors in heavy losses. The Colonies had outgrown their strength, and a collapse occurred in 1893, when most of the banks had to suspend payment. Meanwhile trade with the East was upset by the rapid fall in the value of silver, and the income derived by British investors from Indian stocks, loans, and guaranteed railways fell off by some £200,000 or £300,000. In America, business was severely affected by the McKinley Tariff, and by currency fears, caused by the Sherman Act and the free silver agitation. The slump in the price of silver precipitated by the closing of the Indian mint to the free coinage of silver in 1893, and the general alarm among the mercantile classes lest gold should entirely disappear from the American currency, produced a crisis which affected every branch of industrial life in the United States. Many railways were unable to meet their fixed charges, and went into the hands of receivers. Railway securities

suffered a general collapse. Nearer home, many European Governments were faced with serious deficits, consequent upon the world-wide depression and the growth of expenditure which they were unable or unwilling to curtail.

The effect of all these forces upon the British and European investor was crushing. Foreign loans and loans to private enterprises abroad and in the Colonies were for a time almost entirely suspended. Not only that, but hundreds of millions of dollars of American railway bonds and stock were thrown upon the New York market and sold at enormous sacrifices. The British investor was scared, just as he had been at the outbreak of the American Civil War in 1861, and the panic spread also to the Continent; the only European investors who are supposed to have purchased more American securities than they sold being the Swiss investors through Geneva.[1] Trade became stagnant. The continued accumulations of capital were allowed to glut the money market, causing the Bank of England rate to remain for a long period at 2 per cent; or were invested in gilt-edged securities, the price of which was steadily driven up. Municipalities and railway companies at home found borrowing a pleasant diversion, and loans were issued to large amounts.

British foreign investment, it is true, was not suspended in every direction during this period. Each year a considerable amount of capital was subscribed for colonial Governments, for some foreign

[1] Bacon, *Yale Review*, 1900.

Governments, for foreign and colonial municipalities and railway companies, and for mining enterprises in Africa, Australia, and subsequently in Klondike. In general, the purposes for which loans were required were closely scrutinised and good security insisted on. It was considered that money might safely be lent for an extension of railways required in Australia, South Africa, and India. In the later 'nineties too, when conditions in Argentina had become more stable and prosperous, the flow of British capital into that country for constructing new railways began again. But even during the period of general depression there was a considerable amount of speculative activity, which manifested itself especially in South African and West Australian gold-mining shares. New discoveries of gold, and the great improvement in extraction, bound up with the introduction of the cyanide process, caused many millions to be somewhat recklessly sunk. Tea and coffee plantations, in India and Ceylon, were another sphere in which speculative investment was actively carried forward. Moreover, there was again to be noted a gradual selling of the securities of the principal European Governments to Continental investors, whose growing resources enabled them to take up their own Government funds. The money realised by the sales was probably transferred to China and Japan (at the time of, and after, the war of 1894), and to foreign and colonial municipalities. But although foreign investment was extended in certain directions, the total amount of British capital invested abroad during the

greater part of the 'nineties showed a slower rate of increase. The United States was in continued disfavour till after the victory of the "sound money" party in 1896, and American railroad securities were steadily sold to New York.

With the revival of business in the United States during 1896 a large amount of railway bonds and shares came back again to Europe. But this inflow of capital was short-lived. After a time railroad securities began again to be sold to America, which absorbed them steadily. The burst of prosperity in 1898 caused the movement to be hastened, and within a few years a large amount had been repurchased in America. It has been reckoned that, during the ten years to 1906, $250,000,000 of the securities of nine railroads alone had been returned from Europe. Companies which had been mainly owned abroad became, for the most part, American owned, and only a very few remained under foreign control. The following table,[1] showing the percentage of foreign stock-holders in some of the principal railways during the early 'nineties and in 1905, is eloquent, though part of the decline in the percentage between the two dates may have been caused by new issues to which European investors did not subscribe :—

	1890–96.	1905.
Illinois Central	65%	21%
Pennsylvania	52	19
Louisville and Nashville	75	7
New York, Ontario, and Western	58	12
New York, Central, and Hudson River	37	9

[1] From W. Z. Ripley, "Foreign Capital in Railways of the United States," *New York Journal of Commerce*, December 6, 1911.

	1890–96.	1905.
Reading	52%	3%
Great Northern	33	2
Baltimore and Ohio	21	17
Chicago, Milwaukee, and St. Paul	21	6

Other signs were not wanting that America was bounding ahead as a financial power. The accumulation of capital during the years following the depression was enormous, and considerable activity was shown in pushing American investment outside the limits of the United States. In 1899 two American insurance companies took up a large part of the 4 per cent bond issues of some Swiss cities.[1] The construction of some of the London tube railways was undertaken by American syndicates and American capital. The formation of the International Mercantile Marine Company in 1902, by the purchase of the White Star Line and other lines, also indicates the direction in which American enterprise was moving. In Canada it was estimated that between 1896 and 1900 $100,000,000 of United States capital had been invested, mainly in mining, industrial, and lumber companies, and in railroads.[2] By 1911 it was reckoned that the amount had increased to $226,800,000.[3] American finance has also pushed southwards into Mexico, where it was recently estimated that $700,000,000[4] were invested; and into Cuba and the Republics of Central and South America, where investments are estimated at a further $300,000,000, excluding the large amount

[1] Bacon, *Yale Review*, 1900.
[2] *Economist*, January 26, 1901, p. 119.
[3] *Capital Investments in Canada*, by F. W. Field, p. 24.
[4] Article on "American Capital invading Foreign Fields" in *New York Journal of Commerce*, December 6, 1911.

represented by the Panama Canal. Attention was also directed to the Far East. Several issues of Japanese bonds were made in America during the Russo-Japanese War, and several projects were mooted for building railways with American capital in China.

The extent to which the United States has been able to dispense with the aid of European capital for her internal development, however, must not be exaggerated. In 1899, after large withdrawals had been made, it was nevertheless estimated,[1] though perhaps somewhat liberally, that European holdings of American securities of all sorts amounted to the prodigious total of $3,100,000,000, or £620,000,000, divided among the principal countries as follows:—

England	$2,500,000,000
Holland	240,000,000
Germany	200,000,000
Switzerland	75,000,000
France	50,000,000
Rest of Europe	35,000,000

This consisted mainly of railway bonds and stocks. After 1899 there was, as we have seen, a reduction in the amount of European holdings of railway securities, but this was again merely temporary. For, during the past six or seven years, there has been a further great flow of European capital into the American railways, which have come to make a more powerful appeal than ever before to the small investor in Continental Europe. Holdings have fluctuated considerably, for in addition to the permanent

[1] W. Z. Ripley in *New York Journal of Commerce*, December 6, 1911.

investor the European speculator in railway shares plays a very large part, and at times when prices are low a great amount is bought in, to be sold subsequently when the capital value has appreciated. Thus in the slump of 1907 it is said that $150,000,000 of various American issues were bought by London, Paris, Berlin, and Amsterdam, only to be sold a year later at higher prices.[1] But, generally speaking, there has been a big increase in European—and particularly Continental—holdings of American securities. It is clear, therefore, that America as a whole has not yet reached the stage at which the national capital can permanently force European capital out of the country. The flow of American securities back to America, during the decade following 1893, was a temporary phenomenon caused by special conditions affecting the European investor, and by the huge accumulations of capital effected during the period of prosperity following the slump.

In Europe the fall in the rate of interest may have diminished the capacity to save, and everywhere the early 'nineties were a period of stagnation. In 1896, when the revival of trade became pronounced, the rate of interest began to rise, but the flow of capital to foreign countries did not greatly increase. The increase of saving was apparently slow, and the new capital was mainly absorbed in internal development. For in Germany, and to a smaller extent in Great Britain, there was active industrial expansion, stimulated by the ease with which money could be borrowed.

[1] *New York Journal of Commerce*, July 24, 1912.

When the Boer War broke out the amount of floating capital available for investment elsewhere was severely curtailed by the gigantic demands of the British Government. A powerful stimulus, it is true, was given to certain industries, notably the coal, iron, and shipbuilding industries, but the effect of the war was seen in an almost complete cessation of foreign Government loan issues in London, a heavy reduction in colonial issues, and an all-round decline in the demands of joint-stock enterprises.

In Germany and France foreign investors in Government loans had been frightened by the same collapses of credit in distant parts of the world as had affected British investors. The loss of credit by some European Governments, however, concerned them more nearly, because their capital was mainly laid out in Europe. Portugal and Greece defaulted in 1893, and several other Governments were faced with recurring deficits. With the revival of trade, a large demand for capital sprang up in Russia, for Government loans, for railways, and for industrial enterprises. In 1898 it was estimated that Belgian capital was interested in various commercial undertakings in Russia, such as tramways, iron and steel companies, and municipal works, to the extent of £13,600,000, and a year later the amount was stated to have increased to £19,000,000.[1] Probably a good many of the shares, however, were taken up in France, for a considerable trade is supposed to exist in peddling risky Belgian issues in the northern provinces of

[1] Rozenraad in the *Statistical Journal*, 1900, p. 4.

France. An important sum of money was also subscribed for railways and tramways in Spain, Italy, and elsewhere. One of the most noteworthy features of the period was the enormous demand for capital in Germany, where industry was developing at a great pace. Capital was attracted into Germany from neighbouring countries, including France, and the shares of big German mines were introduced on to the Paris Bourse. It has been stated that in 1901 German foreign investments were actually less than ten years before, while the amount of foreign capital invested in Germany was greater.[1] Germany was unable to retain the position she had gained as a power in the foreign loan market.

The recovery of British foreign investments began late in 1904, when trade was reviving from the depression which followed the Boer War. In 1903 the success which attended the issue of a Transvaal loan for 30 millions had encouraged various colonial Governments to try their luck on the London market, but the result was not encouraging. The demands of Japan during the war with Russia in 1904, however, were freely met, and the amount of capital exported began to increase steadily. Large issues were made on behalf of Canadian and Argentine railways, and a current of foreign investment was started, which rapidly swelled in volume. Canada and Argentina, together with the United States, were destined in the following years to receive a greater share of attention than any other countries. Subsidiary and more or

[1] R. Eberstadt, *Der deutsche Kapitalmarkt*, p. 210.

less irregular streams, however, flowed elsewhere. British capital spread itself geographically over a wider area than ever in the past, and fertilised a more varied assortment of processes than had hitherto been generally the case. Conditions were universally favourable for an extension of investment. Forced abstention from borrowing had improved the credit of South American and Australian Governments. The rise of prices enabled them to gather in a larger revenue, and so lightened the burden of their outstanding debts. Probably it also stimulated the enterprise of commercial men and manufacturers. Political conditions in the chief investment fields, excepting possibly Australia and India, were felt to be satisfactory, and the security of investors seemed to be well protected.

The chief streams of British capital, as has been said, flowed into Canada, the United States, and Argentina. Mexico, Brazil, Chile, and other countries in South America also benefited by more or less large British investments. A small flood of British capital poured into South Africa, while Egypt and the colonies on the east and west coasts of Africa were not neglected. India and the Far East vied with Russia and Australia in their endeavours to obtain British capital. Russia, it may be observed, began to regain the popularity in the eyes of British investors which she had lost a generation before, but Australia was far less attractive than she had been during the 'eighties. In quantity the efflux of British capital increased rapidly during the years 1904–7. During

1907, as we shall see later, the outflow reached the enormous total of about £140,000,000, a sum which far exceeds the amount invested at the summit of the great boom in 1872. In 1908 and 1909 the actual outflow of capital—as distinguished from capital issues—showed some decline, but even in these years the amount exported appears to have reached and exceeded £100,000,000 per annum. In the three following years the outflow grew again, and appears to have reached further new records.

The main purpose for which these gigantic sums are required is still railway construction in almost every part of the world. Docks, water and gas works, electric lighting, telegraphs and tramways, form another important group of enterprises which are constantly demanding fresh capital. All of these activities are conducted both by Governmental authorities—central or local—and by joint-stock companies. In addition there are mining concerns and plantations, land mortgage companies, banks, trust, insurance, and trading companies, all of which figured prominently during earlier periods of foreign investment. There is, however, a new characteristic visible in the course of foreign investment during the past few years, namely, a tendency to invest in manufacturing and industrial concerns. The movement is particularly noteworthy in North America, in India, and in Russia. Canadian cotton and textile companies, iron and steel works, and paper mills have been nourished with British capital. A considerable amount of United States Steel Corporation securities is held here.

In India, jute mills have largely been financed by Scottish capitalists, and English companies are also at work in the cotton and engineering trades. In Russia, a number of British companies are engaged in the iron and engineering trades, and in the chemical industry. The movement towards industrial enterprises is extending also to Continental and American foreign investment. In 1910 there were eleven French or Belgian textile companies licensed to carry on business in Russia. Germany is more prominent than Great Britain in the Russian chemical industry, and all these countries are interested in iron and steel manufacturing.

It would appear that the obstacles in the way of successful foreign investment in manufacturing are being overcome. Doubtless improved communication is the main factor. Possibly also the increasing size of the concerns and the larger capital required may diminish the risks attendant upon this kind of enterprise.

Before concluding this chapter, we may consider briefly the prospects of foreign investment from the standpoint of the present day. It is probable that the demands for capital in parts of the world, which are as yet undeveloped, will grow rapidly. The railways, and essential bases upon which modern civilisation is being built up, remain to be constructed over a great part of the world. The continent of Africa has scarcely been touched, the material elements of West European life are almost entirely lacking in China, and over most of the Russian

Empire: much remains to be done in South and Central America, Mexico, and Canada. We may, however, expect that the opening up of the world will proceed with unexampled celerity. For during the past century many obstructions which hindered the flow of capital over the world have been swept away; and a flood, such as has never before been witnessed, is pouring forth year by year from Great Britain, from Western Europe, and from the Eastern United States, to fertilise production in the whole of the habitable world. Great Britain has for some years past never invested less than £100,000,000 per annum in the Colonies and in foreign countries, and recently the amount has been in the neighbourhood of £200,000,000. The yearly flow of French investments to other lands is now estimated by M. Neymarck at from 80 to 100 millions sterling: German foreign investments,[1] judging from the values of securities admitted to quotation on the German Bourses, must amount to from 40 to 60 millions per annum; while Belgian and Dutch investments must also amount to a substantial sum.

Probably we shall not be above the mark if we estimate the present rate of foreign investments by the countries of Western Europe at £300,000,000 yearly. This huge sum appears destined to grow decade by decade, until the time comes when the basic industries of modern civilisation have been spread far and wide. Ultimately the question may

[1] Tables bearing upon the growth of French and German foreign investments in recent years will be found in Appendix A.

arise whether the distant absentee investor will be able to compete with the domestic investor, who possesses from his position and the facilities which he has for guarding his capital, a certain more or less considerable advantage. It is probable, however, that at the present time the capacity to compete from a distance is becoming greater. British investors are buying industrial securities and floating industrial companies to carry on business abroad in competition with foreign capitalists. British foreign investments, which now amount to some £3,500,000,000, are likely in future years to increase rapidly beyond that figure.

Similar remarks apply to Continental investors, who are going farther afield, and restricting themselves less narrowly in the choice of their investments. It would to-day be an inaccurate generalisation to say that French and German foreign investments are confined within the limits of Europe: still more that they consist exclusively of European Government and municipal bonds. The fact is that the general character of French investment has been slowly modified in recent years, and that its scope is extending more and more outside the sphere of gilt-edged securities. American industrials have appeared on the *Coulisse* in Paris; the popularity of Russian industrials as a speculative counter is well known; and a considerable business in South African mines, and other speculative company issues, is done through Brussels, Amsterdam, and London. French interests in South America, especially in Argentine and

Brazilian bonds, have attained considerable importance, and French capital is also invested in Argentine railways. When all has been said, however, it is probably still true that the greater part of French foreign investments (which were estimated[1] recently at £1,600,000,000), are invested in European Government and municipal issues. The German investor is also backward, as compared with his British fellow, in the wide distribution of his capital. The greater part of the total sum invested abroad (estimated at £800,000,000 by the German Admiralty in 1905), is invested in Europe—Russia, Austria, Turkey, and the Balkans accounting for most of this. There can, however, be little doubt but that both France and Germany will extend their investments in more distant parts of the world as the nearer markets become saturated, as the supply of loanable capital increases, and as the knowledge and experience of investors grow wider.

[1] *Les Grands Marchés financiers* (Félix Alcan), p. 69.

CHAPTER VII

CAPITAL EXPORTS AND THE BALANCE OF TRADE

In the earlier chapters of this book, it was pointed out that foreign investment is effected either by an increase in the value of " exports " from the investing country, or by a reduction in its " imports." Interest on former investments, it was also shown, would come home in the form either of an increase of imports into the investing country, or of a reduction in the exports.

But if the economic relations of the United Kingdom with the rest of the world are examined, it becomes clear that capital and interest transactions can only be disentangled, if at all, by carefully eliminating and allowing for numerous other items in the recorded imports and exports. The statistics of imports compiled by the Board of Trade, both exaggerate and understate the value of the goods which this country draws from abroad. They are but a partial picture, and at the same time include items which should be excluded altogether from a national balance-sheet of commercial transactions. The same applies to the statistics of exports. In the present chapter an attempt will be made to estimate, as far

as available information permits, the extent of these other factors, and thus to arrive at a conclusion as to the balance of capital and interest transactions, between the United Kingdom and other countries, over a period of years. From this we shall proceed to estimate the actual export of capital.

Since 1870 the British trade statistics have been compiled roughly on the same basis. Information as to imports has been required from the master of every vessel entering with cargo, and from each importer of particular portions of the cargo. These statements are used to check one another so far as possible, while the report of the revenue official who superintends the discharge of the vessel is a further safeguard. The only person who has a really detailed knowledge of the value and quantity of the goods, however, is the importer, who is compelled under penalties to furnish complete information. It is nevertheless impossible entirely to guard against errors due to carelessness or lack of knowledge on the part of agents making returns, while the exact value of goods consigned for sale may be unknown until the goods have actually been sold. Even the latest selling value is no exact criterion of what the goods will be sold at when they reach the market. In other cases importers may be interested in declaring a false value, especially where it is desired to evade import duties. Recent Customs scandals in the United States indicate the importance of this consideration. But, on the other hand, Customs officials are more likely to see to the correct valuation of

dutiable goods than of those which come in free. Since in the United Kingdom duties are mostly specific and not *ad valorem*, while the number of dutiable articles is small, intentional deception is probably unimportant; but errors due to carelessness and ignorance cannot be entirely eliminated.

The chief difference in the valuation of imports and exports is that while the latter represent values "free on board" at the port of shipment in the United Kingdom, the former represent the cost of the goods plus insurance and freight charges; and as part of the services of transport and insurance is performed by persons normally resident in the United Kingdom, their value must be deducted from the imports, or—what comes to the same thing in striking a balance between imports and exports—added to the exports. There are many other more or less important deficiencies in the trade figures. According to Sir Robert Giffen [1] the value of diamonds, exported from the Cape and other countries to the United Kingdom, was omitted altogether in the British import returns, and the value of diamonds exported from the United Kingdom was also omitted. Another item which was not included in the returns either of imports or of exports until 1899 was the value of ships bought and sold abroad. Even since 1899 the value given in the returns relates only to "new ships," the new ships exported being "not registered as British, or registered as British only for the purpose of delivery or transfer abroad." As the tonnage of

[1] *Statistical Journal*, 1899, p. 6.

old ships sold abroad is known to be large, allowance would have to be made for these too, if strict accuracy in our international account were to be attempted. Various other more or less elusive items can be pointed out which exist in the international balance-sheet, but are not valued in the Board of Trade figures. Such, for example, are the value of press correspondence and telegrams between the United Kingdom and abroad, items which have to be paid for as much as any other goods or services. Similarly goods purchased from foreign countries, but consumed abroad by tourists, enter into the balance-sheet, but find no place in the trade statistics. A great part of the purchase money, however, also does not figure in the returns, being carried abroad in travellers' pockets. To some extent, therefore, these transactions cancel one another.

Both imports and exports contain items which represent non-commercial remittances to or from persons resident in this country, and allowance has to be made for these when considering solely the commercial relations. In this group are included presents sent by emigrants and foreigners to friends here; remittances by foreign and colonial Governments to support their consuls, diplomatic and other representatives, in this country; payments made by the Indian Government to defray the expenses of the India Office in London, and the like. On the other hand, similar items are chargeable to the account of the United Kingdom. The diplomatic and consular staff is very expensive, some of the Crown colonies

receive subventions, part of the British military forces stationed abroad has to be paid for, while the requirements of the Navy outside these shores are also considerable.

In most cases it is entirely impracticable to attempt with great precision to remedy the deficiencies of the Board of Trade figures. With one or two exceptions, therefore, the figures will be taken as they stand; and it is probable indeed that, for the purpose in hand, the defects are a matter of small importance. An estimate will be made of the amount which accrues to the United Kingdom through the shipping services which she performs, the value of which, as has been stated, must be deducted from the imports, or added to the exports; allowance will also be made for the value of financial and other services performed, largely through London, on behalf of foreign countries, which likewise go to balance imports into the United Kingdom; further, a readjustment will be effected to set off the non-commercial items which are included in the Board of Trade figures; and lastly, a small correction will be introduced in regard to new ships imported and exported, which were not included in the official trade returns till 1899. The net excess of imports or exports, thus corrected, should indicate approximately the balance due to capital and interest transactions between the United Kingdom and other countries. If there is no excess of imports or exports in any year, it is to be inferred that the value of new capital going abroad plus interest paid

to foreign countries for investments in the United Kingdom in that year, balances the interest received by this country from investments abroad plus the amount of capital newly invested by foreigners in this country. Subsequently, three quantities in the equation will be eliminated, and the actual efflux of British capital in each year will be estimated. The period for which the calculation will be made dates from 1870 to the end of 1912.

The values of imports and exports, which form the starting-point of the process described, may now be set out :—

[TABLE

MILLIONS OF £

Year.	IMPORTS.			EXPORTS.			
	Goods.	Gold and Silver Bullion.	Total.	Goods.	Gold and Silver Bullion.	Total.	Excess of Imports.
1870	303·3	29·5	332·8	244·1	18·9	263·0	69·8
1871	331·0	38·1	369·1	283·6	33·8	317·4	51·7
1872	354·7	29·6	384·3	314·6	30·3	344·9	39·4
1873	371·3	33·6	404·9	311·0	28·9	339·9	65·0
1874	370·1	30·4	400·5	297·7	22·9	320·6	79·9
1875	373·9	33·3	407·2	281·6	27·6	309·2	98·0
1876	375·1	37·1	412·2	256·8	29·5	286·3	125·9
1877	394·4	37·2	431·6	252·3	39·8	292·1	139·5
1878	368·8	32·4	401·2	245·5	26·7	272·2	129·0
1879	363·0	24·2	387·2	248·8	28·6	277·4	109·8
1880	411·2	16·3	427·5	286·4	18·9	305·3	122·2
1881	397·0	16·9	413·9	297·1	22·5	319·6	94·3
1882	413·0	23·6	436·6	306·7	21·0	327·7	108·9
1883	426·9	17·2	444·1	305·4	16·4	321·8	122·3
1884	390·0	20·4	410·4	296·0	22·0	318·0	92·4
1885	371·0	22·0	393·0	271·5	21·8	293·3	99·7
1886	349·9	20·4	370·3	269·0	21·0	290·0	80·3
1887	363·2	17·8	381·0	281·3	17·1	298·4	82·6
1888	387·6	22·0	409·6	298·6	22·6	321·2	88·4
1889	427·6	27·1	454·7	315·6	25·1	340·7	114·0
1890	420·7	34·0	454·7	328·3	25·2	353·5	101·2
1891	435·4	39·6	475·0	309·1	37·2	346·3	128·7
1892	423·8	32·3	456·1	291·6	28·9	320·5	135·6
1893	404·7	36·7	441·4	277·1	33·1	310·2	131·2
1894	408·3	38·6	446·9	273·8	27·8	301·6	145·3
1895	416·7	46·7	463·4	285·8	31·7	317·5	145·9
1896	441·8	38·8	480·6	296·4	45·2	341·6	139·0
1897	451·0	48·8	499·8	294·2	49·6	343·8	156·0
1898	470·5	58·4	528·9	294·0	52·2	346·2	182·7
1899	485·0 *	45·3	530·3	320·3 *	35·5	355·8	174·5
1900	523·1	39·5	562·6	345·8	32·0	377·8	184·8
1901	522·0	32·2	554·2	338·7	26·0	364·7	189·5
1902	528·4	31·4	559·8	343·4	26·1	369·5	190·3
1903	542·6	39·0	581·6	356·1	39·2	395·3	186·3
1904	551·0	45·6	596·6	366·6	46·3	412·9	183·7
1905	565·0	51·6	616·6	402·2	45·4	447·6	169·0
1906	607·9	63·3	671·2	452·0	61·5	513·5	157·7
1907	645·8	73·1	718·9	508·0	67·8	575·8	143·1
1908	593·0	56·5	649·5	446·1	63·3	509·4	140·1
1909	624·7	66·5	691·2	463·6	60·0	523·6	167·6
1910	678·3	71·4	749·7	525·4	64·7	590·1	159·6
1911	680·1	63·0	743·1	551·2	57·0	608·2	134·9
1912	744·6	69·5	814·1	591·9	64·9	656·8	157·3

* Excluding new ships from 1899.

Let us turn first to consider the allowance which is to be introduced on account of the earnings of British shipping. The amount which has to be allowed for does not comprise the whole freight takings of British vessels trading with foreign ports, but only that part which is either included in the Board of Trade valuation of imports, or enables this country to increase its imports. Payments which have to be made abroad for harbour dues, for coal, and for the labour of loading and unloading, must therefore be deducted from the gross receipts. It should be remarked that deductions would also have to be made from the freight earnings for bunker coal shipped on vessels in this country, and for ships' stores, were these included in the official valuation of exports, which they are not.

The large extent of the deduction that has to be made from the gross freight takings of British vessels on account of expenses abroad may be seen from the voyage accounts of two tramp steamers summarised in Appendix C.[1] The foreign expenses were never less than one-sixth of the total receipts, and in one case, where the vessel had to pass twice through the Suez Canal, the expenses incurred abroad were more than half of the receipts. As a matter of fact, however, the exact proportion of foreign expenses can never be precisely ascertained, as it is impossible to find out what happens to the wages received by the crews. Probably a large proportion of the wages

[1] These are obtained from accounts kindly placed at the author's disposal by a shipowner.

paid to British sailors is spent in this country, for many companies make arrangements to pay over a weekly sum to the wives and families of sailors away on sea voyages; and the Board of Trade has for years made arrangements by which British seamen paid off in foreign ports can have their wages forwarded home. But foreigners and lascars employed on British ships probably spend most of their wages abroad, and the number of these sailors is large and increasing. Probably, therefore, the average proportion of expenditure abroad for the voyages shown in Appendix C is rather above than below the 30·3 per cent which the following table indicates:—

	Foreign Expenditure.	Total Receipts.	Per cent of Foreign Expenditure.
Voyage I.	£2,352	£8,550	27·6
„ II.	1,084	6,237	17·4
„ III.	1,206	3,530	34·2
„ IV.	3,451	5,866	59·0
„ V.	1,605	5,533	29·0
„ VI.	632	3,485	18·1
„ VII.	1,230	4,840	25·6
Total . .	£11,560	£38,041	30·3

A recent writer,[1] who claims to have examined the accounts of 600 double voyages, comes to the conclusion that the expenditure of British vessels in foreign parts is 32·12 per cent of the receipts, while foreign vessels trading with the United Kingdom spend approximately the same proportion here. One further indication of the importance of foreign

[1] Robert Walsh, *Industrial Economy*, p. 139.

expenditure is the statement of a line company, trading with distant ports, that in the year 1907, out of a total expenditure of £555,000 for port charges, labour, stores, repairs, and coal, no less a sum than £225,000 was spent abroad, of which about £50,000 represented expenses on freight. Certainly it must be concluded that Sir Robert Giffen's estimate, that in 1882 the proportion of receipts expended abroad did not exceed one-sixth of the total receipts, is now far below the actual facts. In view of the large number of British vessels now almost permanently located abroad the proportion cannot be put at less than one-third.

How far this proportion varies from year to year could not be determined without a very minute investigation, for which data do not exist. It appears probable, however, that there is no great change from one year to the next, although there may be a gradual change in the course of time. It is stated that, in times when imports are increasing, the share of the freight takings which Great Britain receives tends to diminish; but this cannot be of very great importance. There are, moreover, always counterbalancing factors in existence. For example, when the export trade is slack, vessels may carry a greater amount of bunker coal than otherwise, thus avoiding the necessity of replenishing their bunkers at a place where coal is expensive.

On the whole, therefore, the assumption appears justifiable that the proportion of foreign expenditure abroad is fairly constant from year to year.

Another fact to which attention must be called is that, of the total receipts of shipping in the trade with foreign countries, a considerable amount comes from the pockets of persons who have been residing in the United Kingdom. Many passengers and emigrants pay their own passages; and these sums, although earnings of shipping companies, do not enter into the international account. They do not pay for imports. Subventions by the Government must also be deducted for the same reason. In 1904 the amount contributed was £712,377, and the sums paid annually in accordance with mail contracts amounted to almost as large a figure.

We may now proceed to estimate the sum which accrued to the United Kingdom in a particular year, the year selected being 1907. For this various methods may be adopted. One is to find the total value of the world's imports and exports, and by subtracting the latter from the former, to reach a figure which represents roughly [1] the cost of carriage. This figure can then be divided up in proportion to the carrying trade performed by each country. In 1907 the world's imports were estimated [2] at £3737·2 millions, and the world's exports at £3383·6 millions; so that the difference, which measures very roughly the cost of carriage, amounted to £353,600,000. The tonnage entered and cleared at the ports of the principal countries in the same year was, roughly,

[1] The methods of compiling trade statistics are of course various. The United States import statistics represent value at the port of shipment, and not at the port of entry as in the case of Great Britain. This method also neglects passenger earnings.

[2] *Manchester Guardian*, February 10, 1911.

700,000,000 tons, and of this about 340,000,000 tons, or 48 per cent, was British. Applying this percentage, it would appear that some £168,000,000 accrued to the United Kingdom as the gross earnings of British shipping in the foreign trade. Fourteen per cent of the British shipping, however, belonged to the Colonies, so that the share of shipping belonging to the United Kingdom alone would represent about £146,000,000. Deducting one-third from this for expenses abroad, the sum falling due to the United Kingdom would appear to be about £97,000,000.[1] This compares with an estimate of £90,000,000 by Sir Robert Giffen and the Board of Trade in 1898 and 1901 respectively.

A second method of reckoning the amount which accrues to the United Kingdom for shipping services is to calculate the various items of expenditure separately. The results of such an examination [2]

[1] This, however, makes no allowance for the expenses of foreign ships in British ports.

[2] The average value of British vessels per net ton appeared to be about £10 in 1907, including equipment. The value of new ships constructed was about £15 per net ton, according to the Census of Production. Ships ten years old, as estimated from sale values published in *Fairplay*, sold for £7·3 per ton, and ships twenty years old for some £4 per ton; while the value of ships older still fell very little. The dividends paid by cargo boat companies, with a capital of over 9 million in 1907, were stated in *Fairplay* at 4·17 per cent, but probably 5 per cent is not an excessive assumption for the mercantile marine as a whole. Repairs to vessels were valued in the Census of Production at £8,004,000, but this is a small part of the loss through depreciation, wear and tear, etc. Insurance is said to be reckoned at 6 per cent even by large steamship lines, and this over the mercantile marine as a whole would amount to about £9,600,000. The particulars given above would indicate that the sale value of ships has probably been at least halved in ten years, and this means an annual loss on the mercantile marine of, say, £8,000,000. So 15 per cent is a moderate estimate for insurance and depreciation. The estimate for wages is based on rates of wages and numbers of various grades of seamen, as given in the Annual Report on the Progress of British Merchant Shipping. Foreign seamen, whether on British or foreign ships, are excluded. The earnings are those of British seamen only.

place the total earnings of the United Kingdom in 1907 as follows :—

	£
Interest and dividends on capital (say £160,000,000 at 5 per cent)	£8,000,000
Insurance, depreciation, and repairs (say 15 per cent)	24,000,000
Wages of crew (British seamen only) and provisions	12,000,000
Stores and outfit in United Kingdom	4,000,000
Bunker coal shipped in United Kingdom	11,750,000
Port and dock charges, pilotage	10,000,000
Unloading	5,000,000
Management, office, taxes, etc.	5,000,000
Total	£79,750,000

On this basis the earnings of shipping appear to amount to 80 millions. From this figure should be deducted the passage money of emigrants from the United Kingdom who pay their own passage, and Government contributions, while something should be added for expenses of foreign vessels in British ports.

A third method is to analyse the results of such shipping companies as publish working accounts. This is done in the following table, which shows the receipts of a number of shipping concerns in the year 1907, together with the approximate gross tonnage from which the receipts were derived.

A moderate allowance is made for food. The estimate for "stores and outfit" is based on the voyage accounts shown in an Appendix, with a slight allowance for extra stores required by passenger lines. The amount of bunker coal shipped on vessels on foreign voyages in 1907 was 18,618,828 tons, which at the average export value of coal is worth £11,750,000. Port and dock charges are estimated from information given in the reports of four large dock concerns, which showed in 1907 receipts of £2,636,000 upon a net tonnage of 29,369,000 tons. This indicates a total payment of at least 10 millions. For unloading £5,000,000 represents a cost of rather over 1s. per ton weight of cargo; while miscellaneous expenses are placed at £5,000,000.

	Gross Receipts.	Approximate Gross Tons.	Receipts per Gross Ton.
General Steam Navigation Company	£605,191	55,261	£10·8
Cunard Steam Ship Company	2,499,275	215,000	11·6
Pacific Steam Navigation Company	1,798,763	171,616	10·48
Prince Line	804,592	198,000	4·06
Dene Steamship Company .	40,298	10,852	3·72
Pool Steamship Company .	146,964	23,959	6·15
Peninsular and Oriental .	3,104,978	383,000	8·1
Auchen Steam Shipping Company	64,835	15,502	4·18
Nitrate Producers' Steamship Company . . .	157,681	37,500	4·2
International Mercantile Marine	7,650,718	979,038	7·84
Steamship "A" (*v.* Appendix)	16,350	3,100	5·23
	£16,889,645	2,092,828	£8·07

The average receipts per gross ton would indicate total receipts upon the whole of the British mercantile marine engaged in the foreign trade (about 16,000,000 tons in 1907) of about £129,000,000. From this must be deducted expenses abroad, and receipts from passengers who pay their own passage, Government contributions, etc.; while, on the other hand, expenditure of foreign ships in British ports must be added. On this basis the amount to be credited to the United Kingdom would amount perhaps to £86,000,000 or £90,000,000. As this is about the mean of the two former estimates, a figure of £90,000,000 may perhaps be taken as the amount to be credited to the United Kingdom[1] in 1907 for shipping services of every kind.

[1] It is of interest to note that the gross receipts of the Swedish and Danish mercantile marines in 1909 were officially estimated at £4,192,000 and £4,174,000. The corresponding figures for 1911 are £5,281,000 and

We may now proceed to examine the fluctuations in this item. The broad method which will be adopted is to obtain through a freight index number the changes from year to year in the cost of carrying cargo, to multiply the figure for each year by the tonnage of vessels earning freight, and to correct the product by allowing for changes in the efficiency of the mercantile marine, and changes in the proportion of freight earnings spent abroad. The actual amounts to be credited to the United Kingdom in each year are then estimated from the curve of relative fluctuations, with the assistance of the estimate for 1907 made above.

The basis of the freight index number is the calculation made some years ago by the Board of Trade.[1] The figures collected related both to tramp steamers and to liners, the latter showing smaller fluctuations than the former.

Separate calculations[2] have been made for the years 1870–84 and for the years subsequent to 1903, as the Board of Trade index number embraces only the period 1884–1903. Absence of data, which a Government department or a shipowner perhaps alone could successfully collect, presents a formidable obstacle. Nevertheless it may be claimed that the fluctuations in the index number for the periods before 1884 and after 1903 show substantially the actual changes in the costs of ocean transport.

£4,716,000. These estimates appear to tally with the estimate for the United Kingdom, having regard to differences in the character and tonnage of the mercantile marines, and to expenses abroad.

[1] British and Foreign Trade and Industry, 2nd Series. Cd. 2337.

[2] The material upon which the freight index number is based is given in full in Appendix B.

For the period 1870–84 the outward freight rates represent the average quotations for chartered boats. The mean of six quotations extracted from Mitchell's *Maritime Register* and Lloyd's *Shipping Gazette* has been calculated for each of twenty-two selected routes. The figures have been carried up to the year 1888, and the individual averages in the overlapping period agree fairly closely with Messrs. Cairns Noble's average for identical voyages, quoted by the Board of Trade. Probably the fact that the figures relate only to tramps is of small importance, since liner freights in this early period were less stable than at the present time, and line traffic formed a smaller proportion of all ocean transport. The freight figures, however, relate only to coal and iron, and this is a serious objection. The figures were worked out as percentages of 100 in the year 1884, but in order to put them on a basis comparable with the Board of Trade index number for outward rates, they have been reduced to the basis of 110·7 in the year 1884. It will be seen that, where these index numbers overlap, the divergence between them is not very great.

In the years after 1903 the outward freight index number has been calculated on similar lines as for the period 1870–84, but the data are taken from the average charter freights in the various years for vessels from the Tyne, Blyth, Wear, etc., published by Messrs. Cairns Noble & Co. of Newcastle. These figures also relate to coal and iron only. The voyages fall naturally into three groups :—(1) Those

to Mediterranean Ports; (2) those to Baltic and North Sea Ports; and (3) those to South America. The method pursued in calculating the index number of outward freights has been to take the arithmetic average of each group separately (reckoning in percentages of the year 1900=100) and then to combine the groups by taking the mean between them. Putting the figure for the year 1903 at 78·9, as in the Board of Trade index number, we then get a representation of the course of outward freights as shown below. It is clear, however, that the outward freight index unduly accentuates fluctuations as compared with the Board of Trade index.

The homeward freight index number between 1870 and 1884 is the mean between four wheat rates:—(1) New York to Liverpool, given in the United States Statistical Abstract; (2) Azoff to the United Kingdom; (3) Odessa to the United Kingdom; and (4) Sulina to the United Kingdom; the last three being averages of six rates in each year compiled from Mitchell's *Maritime Register* and Lloyd's *Shipping Gazette*. A few of the earliest years are missing, except in the case of the New York to Liverpool rate, which exists from the year 1868, and in these years the latter has been taken as indicating the movement of freight rates. The figures subsequent to 1903 include a number of tramp rates compiled by Messrs. Cairns Noble, and also rates on wheat, flour, beef, pork, and bacon, calculated from monthly figures kindly supplied by Mr. Heinzer, the Statistician of the New York Produce Exchange. The

freight rate for the years 1870–84 represents the mean between the Black Sea rates together, and the New York to Liverpool rate. For the period after 1903 the American rates are given a double weight, while the Mediterranean and Black Sea, the South American, and the Eastern rates are each given an equal value. It may be noted that the inward freight index during the overlapping period between 1894 and 1903 corresponds closely with the Board of Trade index, and the inward freight index after 1903 is probably more reliable than the outward index.

[TABLE

Year.	Inward Freights.		Outward Freights.		Mean.	
	Present Calculation.	Board of Trade Index.	Present Calculation.	Board of Trade Index.	Present Calculation.	Board of Trade Index.
1870	215	..	155·8	..	185·4	..
1871	304	..	150	..	227	..
1872	286	..	157·3	..	221·6	..
1873	329	..	167·3	..	248·2	..
1874	285	..	163	..	224	..
1875	253	..	138·8	..	195·9	..
1876	258·5	..	127·8	..	193·2	..
1877	236·5	..	126	..	181·2	..
1878	227·5	..	125·6	..	176·5	..
1879	186	..	131·0	..	158·5	..
1880	177	..	130·5	..	153·7	..
1881	156	..	119·7	..	137·8	..
1882	153	..	116·7	..	134·8	..
1883	149·5	..	115·8	..	132·6	..
1884	121·7	121·7	110·7	110·7	116·2	116·2
1885	(91·0)	106·9	(100·3)	101·0	(98·2)	104·0
1886	(111)	98·0	(94·4)	105·0	(104·7)	101·5
1887	(101·5)	94·6	(102)	105·6	(100·7)	100·1
1888	(124·5)	107·3	(117)	114·0	(120·7)	110·7
1889	..	125·4	..	119·2	..	122·3
1890	..	102·8	..	110·5	..	106·7
1891	..	104·4	..	95·5	..	100·0
1892	..	84·3	..	89·3	..	86·8
1893	..	84·8	..	82·3	..	83·6
1894	(82·5)	81·2	..	78·3	..	79·8
1895	(75·8)	74·8	..	75·7	..	75·3
1896	(78·5)	82·8	(98)	76·0	(88·2)	79·4
1897	(80·4)	81·8	(108)	84·0	(94·2)	82·9
1898	(96·5)	96·5	(114)	88·9	(105·7)	92·7
1899	(88·5)	83·7	(110·0)	91·7	(73·1)	87·7
1900	(103·0)	100·0	(139·0)	100·0	(122·4)	100·0
1901	(71·7)	69·1	(98)	80·8	(84·8)	75·0
1902	(66·1)	65·2	(83)	76·1	(74·5)	70·7
1903	(66·6)	66·6	78·9	78·9	72·8	72·8
1904	64·8	..	78·0	..	71·4	..
1905	67·8	..	83·7	..	75·7	..
1906	67·9	..	100	..	84·0	..
1907	70·5	..	100	..	85·2	..
1908	61·5	..	85	..	73·2	..
1909	67·3	..	83·2	..	75·2	..
1910	71·2	..	99·0	..	85·1	..
1911	75·0	..	116	..	95·5	..
1912	107·5	..	156	..	131·7	..

The final freight index, which is taken to represent the fluctuation of ocean freights as a whole, is obtained by combining the inward and outward freight indices in equal proportions. The amount earned on inward freights is probably greater than on outward freights in the case of Great Britain; but if inward and outward freights to and from the whole of Europe were taken the disparity would perhaps be less, and in any case no serious error in the fluctuations from year to year will be introduced by taking the mean of inward and outward freights, rather than by weighting the inward freights more heavily.

To ascertain the fluctuations in actual shipping receipts, as distinguished from mere freight rates, it would be necessary to multiply the freight receipts by the quantity of goods on which freight was earned. This cannot be done exactly, because no figures exist as to the amount of cargo transported in British ships. In default of a better way the freight index number for each year has been multiplied by the net tonnage of vessels on the register of the United Kingdom at the end of each year, allowance being made subsequently for changes in the speed of vessels and in the pace of loading and unloading. The statistics of tonnage on the register include vessels engaged in the coasting trade, as well as those engaged with foreign countries, but they are more reliable and satisfactory than the statistics relating to vessels engaged in the home and foreign trades. The latter, as officially published, are admittedly incomplete, and include, moreover, in the "Home Trade" vessels

trading with the continent of Europe between the river Elbe and Brest. The error introduced by including a small tonnage engaged in the coasting trade is trifling, since the tonnage engaged in it is a small proportion of the whole, and shows unimportant fluctuations. Nor will the fact that the figures represent the tonnage on the register at the end of the year, instead of the average tonnage earning freight, greatly affect the result.

A further objection to the figures at our disposal is that net tonnage is a different thing from deadweight tonnage or carrying capacity. The earning power of a vessel does not depend on its net tonnage, for in the case of transatlantic passenger liners net tonnage is very small, yet earnings are very great. Even in freight vessels the tendency of recent years has been to increase the proportion of the carrying capacity to the net tonnage. The objection, however, though valid over a long period of years, is of little moment in comparing a few consecutive years. Increasing deadweight capacity does not show itself, in the British mercantile marine as a whole, by sudden jumps, but by a steady trend. Of more importance is the objection that the net tonnage represented as being employed in the foreign trade, in different years, may not always be actually employed. Ships may find no remunerative work to do in a particular year, and may be obliged to lie up. The year 1907 was a busy year, and the tonnage unemployed was small, but in the following year a large amount of tonnage was without occupation.

It was reckoned that at the end of August in that year not less than 757,306 tons of cargo space belonging to English owners were lying unemployed in the various harbours of the world. By using the total tonnage on the register as the multiplier, therefore, we may expect to obtain results which fluctuate rather less than is actually the case. As against this it must be remembered that the tramp freights, which play a large part in the determination of the index numbers, fluctuate more violently than freights as a whole.

We may now proceed to consider the allowance to be made for increased speed and efficiency of the mercantile marine. The net tonnage on the register in 1870 was 5,690,789 tons. In 1910 it was 11,555,663 tons, or 2·03 times as much. If three sailing tons be reckoned as equivalent to one steam ton in both years, the increase in capacity is represented by the figures 2,638,886 tons and 10,813,700 tons, the sailing tonnage having declined from 4,577,855 tons to 1,112,944 tons. The increase in capacity due to this cause is thus over fourfold, or about twice the increase shown by the tonnage statistics as they stand. In addition, allowance must be made for the increased efficiency of steamships now, as compared with forty years ago. Probably the earning capacity per net ton is not less than 70 or 80 per cent greater; but as on the other hand some deduction must be made for increased expenses abroad it will perhaps be reasonable to assume that shipping earnings have increased altogether by 160 per cent beyond what is

shown by the increase of tonnage. The substitution of steamships for sailing ships has gone on almost without intermission during the years since 1870, while at the same time there has been a great development in the speed and capacity of steamships. An examination of Lloyd's *Register* for 1907 shows that about one-third of the gross tonnage of steamships belonging to the United Kingdom was of 12 knots and over, the approximate distribution of the tonnage at different speeds being as follows :—

20 knots and above	103,000	tons=	170,000	tons at 12 knots.	
19-19½ knots	52,000	,, =	82,000	,,	,,
18½ ,,	56,000	,, =	85,000	,,	,,
18 ,,	171,000	,, =	256,000	,,	,,
17½ ,,	129,000	,, =	185,000	,,	,,
17 ,,	138,000	,, =	195,000	,,	,,
16½ ,,	90,000	,, =	125,000	,,	,,
16 ,,	274,000	,, =	365,000	,,	,,
15½ ,,	72,000	,, =	93,000	,,	,,
15 ,,	510,000	,, =	640,000	,,	,,
14 ,,	620,000	,, =	720,000	,,	,,
13½ ,,	230,000	,, =	260,000	,,	,,
13 ,,	1,200,000	,, =	1,300,000	,,	,,
12½ ,,	400,000	,, =	420,000	,,	,,
12 ,,	1,450,000	,, =	1,450,000	,,	,,
	5,495,000	tons=	6,346,000	tons at 12 knots.	

Total steam tonnage registered, 16,513,782 gross tons.

In 1870 there were probably very few vessels of 12 knots or over, and the figures would support the present estimate that earning power has increased by some 4 per cent per annum more than net tonnage. It will be observed below that this proportion brings the amount of shipping earnings for the early 'eighties considerably below Sir Robert Giffen's estimate of 60 millions.

Our calculation of the sums which the United

Kingdom has derived from the shipping trade may now be given :—

Year.	Net Tonnage on Register.	Freight Index Number.	Increasing Efficiency of Shipping.	Product.	Shipping Earnings. 1907 = £90 millions.
1870	5,690,789	185·4	100	105·5	39·5
1871	5,694,123	227	104	134·0	50
1872	5,751,327	221·6	108	137·5	51
1873	5,805,162	248·2	112	162	60·5
1874	5,978,831	224	116	155	57·5
1875	6,152,467	195·9	120	144·5	53·5
1876	6,263,333	193·2	124	150	56
1877	6,399,869	181·2	128	148·5	55·5
1878	6,555,164	176·5	132	152·5	57·5
1879	6,579,975	158·5	136	141·5	52·5
1880	6,574,513	153·7	140	141	52·5
1881	6,691,996	137·8	144	132	49
1882	6,956,865	134·8	148	139	51·5
1883	7,242,216	132·6	152	145·5	54
1884	7,409,251	116·2	156	134·5	50
1885	7,430,045	104·0	160	123·5	46
1886	7,362,499	101·5	164	122	45·5
1887	7,335,182	100·1	168	123·5	46
1888	7,464,167	110·7	172	142	52·5
1889	7,759,008	122·3	176	167	62
1890	7,978,538	106·7	180	153	57
1891	8,279,297	100	184	152	56·5
1892	8,644,754	86·8	188	140·5	52·3
1893	8,778,503	83·6	192	140·5	52
1894	8,956,181	79·8	196	140	52
1895	8,988,450	75·3	200	135	50·2
1896	9,020,282	79·4	204	145·5	54
1897	8,953,171	82·9	208	155	57·7
1898	9,001,860	92·7	212	176	65·5
1899	9,164,342	87·7	216	173·5	64·5
1900	9,304,108	100	220	205	76·3
1901	9,608,420	75·0	224	162	60
1902	10,054,770	70·7	228	161	60
1903	10,268,604	72·8	232	174	64·5
1904	10,554,520	71·4	236	177	66
1905	10,735,582	75·7	240	195	72·5
1906	11,167,332	84·0	244	228	85
1907	11,485,099	85·2	248	242	90
1908	11,541,394	73·2	252	213	79
1909	11,585,878	75·2	256	223	83
1910	11,555,663	85·1	260	256	95
1911	11,698,508	95·5	264	295	110
1912	11,894,791	131·7	268	420	156*

* This figure is probably unduly large owing to the "boom" in freights, which probably raised tramp earnings more than those of liners, and to the coal strike, which caused many vessels to be laid up for several weeks in the spring of 1912. The strikes of 1911 may also have caused the estimate for 1911 to be excessive.

Attention may now be turned to the other items for which an estimate must be made. First and most important is the income which is derived by the United Kingdom for its services as banker, commission and insurance agent, etc., on account of other countries. A huge business is transacted through London on behalf of foreigners, and has to be paid for in the same way as any other goods or services rendered. Unfortunately there is very little clue to the amount earned in this way, but it is a safe assertion that it has increased very largely during recent years. No doubt also a larger sum is obtained when trade is good than when trade is bad, and when the rate of discount is high, than when money is a drug on the market. In the absence of any more satisfactory estimate, the calculation of Sir Robert Giffen [1] may perhaps be accepted, that £18,000,000 was earned in this manner in 1899. Sir Robert Giffen [1] reached this figure by reckoning commissions at the rate of 2½ per cent on the total value of British imports and exports; of which 15s. would be insurance, 5s. bankers' commissions, bill stamps and minor charges, while 1½ per cent would be left for all other charges. It may, however, be questioned whether charges upon imports should be included in the calculation, since the valuation of the Board of Trade includes insurance charges as well as freight and the cost of the articles. But as a great deal of the trade of foreign countries is "moved" through

[1] See *Statistical Journal* for 1899.

London,[1] while the average market rate of discount in London for 1899 was 3·29 per cent, and the Bank rate was 3·75 per cent, it is perhaps not unreasonable to take 18 millions as the amount accruing to the United Kingdom from these services in 1899. This sum, in addition to the items mentioned above, may perhaps be held to include the cost of the services performed in London by which British capital operating abroad is directed and controlled. The London expenses of companies conducting business abroad probably amount to a very large sum. In estimating the fluctuations in the amount of this kind of business, it has been assumed that the changes occur partly in proportion to the total value of British trade, and partly in proportion to the Bank of England discount rate. The actual process of reckoning is shown below :—

[1] Part of the capital engaged must be considered as invested abroad; perhaps the distinguishing line may be drawn according as the trade financed by British capital is carried in British ships or in foreign ships.

[TABLE

Year.	Average Bank Rate. Per cent.	Imports and Exports. £ millions.	Product of Columns 1 and 2.	Proportional to Column 3, 1899=18.	Proportional to Column 2, 1899=18.	Mean Commission, etc. Earnings. £ millions.
1870	3·10	547·4	170	10·0	12·1	11·0
1871	2·88	614·6	177	10·4	13·6	12·0
1872	4·10	669·3	274	16·2	14·8	15·5
1873	4·79	682·3	326	19·3	15·1	17·2
1874	3·69	667·7	246	14·5	14·8	14·6
1875	3·23	655·6	212	12·5	14·5	13·5
1876	2·60	631·9	165	9·7	14·0	11·8
1877	2·90	646·8	187	11·0	14·4	12·7
1878	3·78	614·3	232	13·7	13·6	13·6
1879	2·52	611·8	154	9·1	13·6	11·3
1880	2·76	697·6	192	11·3	15·4	13·3
1881	3·48	694·1	242	14·3	15·4	14·8
1882	4·15	719·7	298	17·6	16·0	16·8
1883	3·57	732·3	261	15·4	16·2	15·8
1884	2·96	686·0	203	12·0	15·2	13·6
1885	2·93	642·4	188	11·1	14·2	12·6
1886	3·05	618·8	189	11·1	13·7	12·4
1887	3·38	644·5	217	12·8	14·3	13·5
1888	3·30	686·4	226	13·4	15·2	14·3
1889	3·55	743·2	264	15·6	16·5	16·0
1890	4·54	748·9	339	20·0	16·6	18·3
1891	3·32	744·6	247	14·6	16·5	15·5
1892	2·52	715·4	180	10·6	15·8	13·2
1893	3·05	681·8	208	12·3	15·1	13·7
1894	2·11	682·1	144	8·5	15·1	11·8
1895	2·00	702·5	140	8·3	15·6	11·9
1896	2·48	738·2	184	10·9	16·4	13·6
1897	2·64	745·2	197	11·6	16·5	14·0
1898	3·25	764·6	248	14·7	16·9	15·8
1899	3·75	805·3	305	18·0	18·0	18·0
1900	3·94	868·9	346	21·0	19·4	20·2
1901	3·72	860·7	323	19·1	19·2	19·1
1902	3·33	871·8	292	17·2	19·4	18·3
1903	3·75	898·7	339	20·0	19·9	20·0
1904	3·30	917·6	305	18·0	20·4	19·2
1905	3·01	967·2	293	17·4	21·5	19·4
1906	4·28	1059·9	458	27·0	23·7	25·3
1907	4·93	1153·8	570	34·0	25·8	29·9
1908	3·00	1039·1	312	18·6	23·2	20·9
1909	3·10	1088·3	338	19·1	24·2	21·6
1910	3·72	1203·7	455	26·6	26·8	26·7
1911	3·47	1231·2	426	25·3	27·3	26·3
1912	3·78	1336·5	505	30·0	29·8	29·9

We may now pass on to consider other allowances to be made in estimating the balance of capital and

interest transactions between the United Kingdom and other countries. Both new and old ships were excluded from the Board of Trade statistics of imports and exports until 1899, but from that year new ships have been included in the trade figures. For the sake of homogeneity this item was omitted throughout, when calculating (on page 170) the excess of imports subsequent to 1898. It will, therefore, be necessary to make allowance for net exports of new ships (the value of imports is negligible), and to deduct the amount from the excess of imports. The figures given for the years from 1899 onwards are those of the Board of Trade. Prior to 1899 an approximation has been made, based upon tables given in the Statistical Abstract for the United Kingdom, relating to sailing and steam vessels sold to foreign countries, distinguishing between ships new built and vessels on the Register of the United Kingdom, which were sold to foreign countries. Some allowance has also been made for the general state of trade affecting the price of ships. The figures are of course rough, as new ships included among the export figures after 1899 include vessels registered as British for the purpose of delivery or transfer abroad, as well as those not registered as British. The table in the Statistical Abstract of ships new built and sold abroad, on the other hand, relates to vessels ordered on foreign account (excluding the Colonies) which were launched during each year. It will be seen that the calculation follows generally the fluctuations in trade.

Old ships have not yet been included in the official trade statistics, although the value of second-hand vessels sold to foreign countries is known to be considerable. In 1907 the tonnage of vessels on the British register sold to foreign countries was 230,012 net tons, of which 63,105 tons were sailing ships. In 1911 the tonnage sold second-hand was as much as 487,037 net tons, of which 107,375 tons were sailing ships. The receipts of the United Kingdom must, therefore, on the lowest valuation, have been over one million and two millions sterling respectively. It is not, however, worth while to trace fluctuations in the value of this item, though it may be taken into account in conjunction with income derived by the United Kingdom from other sources. A more important sum is obtained in return for the service of the Government of India. The expenditure of the Indian Government in this country for all purposes amounted in 1870 to £10,591,013, and had grown by 1907–8 to £18,487,267. These figures, however, include interest (less net traffic receipts) on the guaranteed railways, as well as interest on the Government debt. The individual items of expenditure were not stated in 1870, but in 1907–8 it is possible to a great extent to identify the items which represent services other than the lending of capital and the sending of goods (which are presumably entered as exports from the United Kingdom). These items of expenditure in the United Kingdom in 1907 may be summarised as follows :—

Management of Debt (payments to Banks of England and Ireland)	£57,184
Charges on account of Departments in India .	168,741
Public Works (furlough, absentee allowances, etc.)	57,310
Military Charges. Effective (excluding troop service and passage money)	1,219,697
Military Charges. Non-effective . . .	2,450,613
Civil Charges (excluding stores) . . .	2,615,790
	£6,569,335

From this sum should be deducted receipts in England which amounted to £718,637, leaving a total payment to come in as imported goods of about £5,850,000, in the year 1907–8. If the same proportion of expenditure for services by the United Kingdom (not in return for exported goods, or as payment of interest on capital) applied in 1870, the corresponding figure for that year would be about £3,000,000.

These amounts do not include remittances made by Indian civil servants and military men to their relations and friends in the United Kingdom. Probably this also amounts to a considerable sum. Remittances are also made by persons who have emigrated to North and South America, Australia, South Africa and elsewhere. Some indication as to the growth of this income may be derived from figures, given in the annual reports of the Postmaster-General, relating to foreign and colonial money-orders issued in the United Kingdom and elsewhere. The growth in the value of such orders, and in the balance of inward payments, between the first and last decades in the period 1870–1912, may be seen in the following table :—

MONEY-ORDERS (FOREIGN AND COLONIAL)

Year.	Issued in United Kingdom.	Issued Abroad.	Balance Inward.
1870	£93,000 *	£511,000 *	£418,000
1871	145,503	628,461	482,958
1872	178,061	827,875	649,814
1873	220,055	982,140	762,085
1874	262,678	948,553	685,875
1875	300,963	894,202	593,239
1876–1877	370,597	862,218	491,621
1877–1878	400,584	882,751	482,167
1878–1879	424,499	966,671	542,172
1879–1880	437,169	1,157,520	720,351
1900–1901	1,530,458	3,389,348	1,858,890
1901–1902	1,632,043	3,877,038	2,244,995
1902–1903	1,889,523	4,592,375	2,702,852
1903–1904	2,030,609	5,255,248	3,224,639
1904–1905	1,987,061	5,303,539	3,316,478
1905–1906	2,056,570	5,683,607	3,627,037
1906–1907	2,119,800	6,218,744	4,098,944
1907–1908	2,345,974	6,945,496	4,599,522
1908–1909	2,375,496	6,459,242	4,083,746
1909–1910	2,441,473	6,942,514	4,501,041

* Approximate.

No definite conclusion, however, can be drawn from these figures, for, in the first place, many money-orders represent payments in the way of business, and are not voluntary gifts.[1] The amounts which represent gifts are not known, though the large number of postal orders sent at Christmas time no doubt mainly represents gifts. An American liner at Christmas 1905 is stated[2] to have unloaded at Queenstown mail bags enclosing $125,000, the orders being payable at almost every post-office in Ireland. In the second place, the extension of the foreign and

[1] *Vide* United States National Monetary Commission, *The Trade Balance of the United States*, by Sir George Paish, p. 185.

[2] See an article entitled, "What America pays Europe for Immigrant Labour," in the *North American Review* of January 1908, p. 108.

colonial money-order business is no doubt partly due to increased facilities in this direction, and to the conclusion of agreements for the issue and cashing of postal orders with a greater number of countries. It may, therefore, be necessary to discount the figures on the ground that business payments, which were formerly made through other channels, now take place by the more convenient postal money-order.

Another indication of the importance of the remittance business is found in the annual Emigration Returns some years ago. Figures were published till 1887, showing the amount of money remitted by settlers in the United States, and British North America, to their friends in the United Kingdom, as far as could be ascertained. The information was obtained through the courtesy of banks and mercantile houses, but it was pointed out that there were no means of ascertaining the amount of money sent through private hands, and through such mercantile houses as declined to give information. In the later years, information was obtained through the agents general for the Colonies. The figures, while admittedly incomplete and of uncertain value, show nevertheless that large amounts were remitted :—

1870	£727,408	1879	£855,631
1871	702,488	1880	1,403,341
1872	749,664	1881	1,505,794
1873	724,040	1882	1,573,552
1874	485,566	1883	1,611,201
1875	354,356	1884	1,575,756
1876	449,641	1885	1,239,280
1877	667,564	1886	1,272,959
1878	784,067	1887	1,751,353

All things considered, it will probably not be far from the truth if we assume that the net sum to be credited to the United Kingdom on account of remittances, Government services, and old ships has increased from £6,000,000 in 1870, to £14,000,000 in 1910, and (at the same rate) to £14,400,000 in 1912.

The whole of the preceding calculations may now be summed up in a table which shows the amounts to be deducted from the excess of imports (as shown by the official statistics), on account of shipping earnings, commission, insurance, and banking charges, remittances and Government services, and old and new ships. Deducting these sums from the excess of imports, we obtain a figure which represents the balance of capital and interest transactions between the United Kingdom and other countries. The final column, in fact, represents the difference between two sets each of two unknown quantities, viz. :—

(1) Imports of Capital.
(2) Imports of Interest.
(3) Exports of Capital.
(4) Exports of Interest.

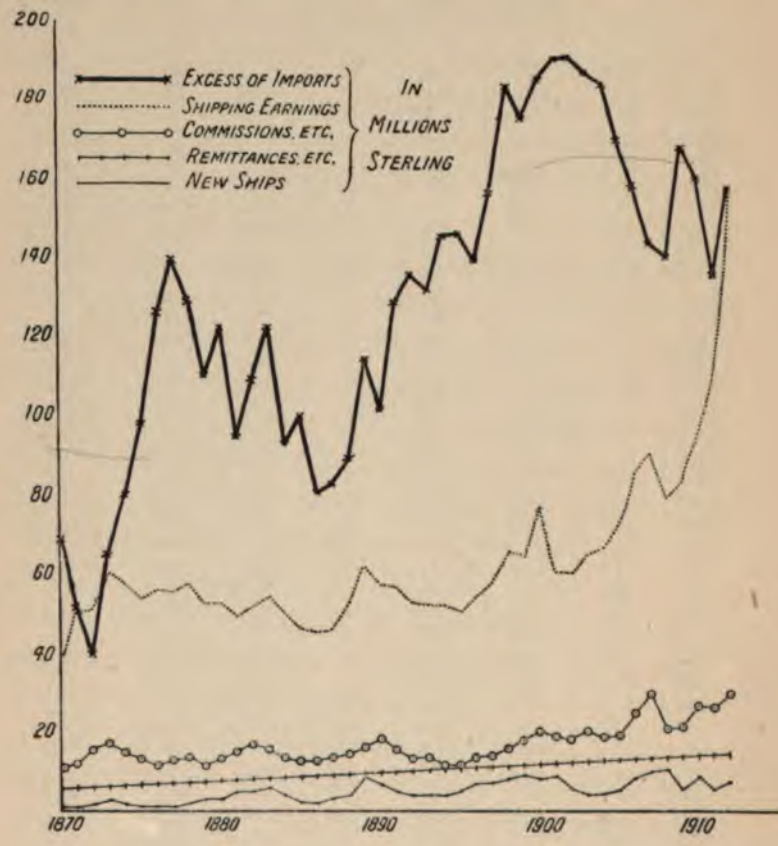
When there is a negative quantity in the last column, it is to be inferred that the United Kingdom is sending abroad more capital and interest than is being received ; when there is a positive figure, new foreign investments, plus interest payments to foreigners, are smaller than imports of capital from abroad, plus interest from abroad. If the figure is zero, imports of capital and interest balance exports of capital and interest.

(MILLIONS OF £)

Year.	Shipping Earnings, etc.	Commission Insurance and Banking Charges.	Government Services, Remittance, and Old Ships.	New Ships.	Total of Columns 1, 2, 3, 4.	Excess of Imports.	Balance of Capital Interest Transactions.
1870	39·5	11·0	6·0	1	57·5	69·8	+12·3
1871	50	12·0	6·2	1	69·2	51·7	−17·5
1872	51	15·5	6·4	2	74·9	39·4	−35·5
1873	60·5	17·2	6·6	3	87·3	65·0	−22·3
1874	57·5	14·6	6·8	2	80·9	79·9	− 1·0
1875	53·5	13·5	7·0	1	75·0	98·0	+23·0
1876	56	11·8	7·2	1	76·0	125·9	+49·8
1877	55·5	12·7	7·4	1	76·6	139·5	+62·9
1878	57·5	13·6	7·6	2	80·7	129·0	+48·3
1879	52·5	11·3	7·8	3	74·6	109·8	+35·2
1880	52·5	13·3	8·0	3	76·8	122·2	+45·4
1881	49	14·8	8·2	5	77·0	94·3	+17·3
1882	51·5	16·8	8·4	5	80·7	108·9	+28·2
1883	54	15·8	8·6	6	83·4	122·3	+38·9
1884	50	13·6	8·8	4	76·4	92·4	+16·0
1885	46	12·6	9·0	2	69·6	99·7	+30·1
1886	45·5	12·4	9·2	2	69·1	80·3	+11·2
1887	46	13·5	9·4	3	71·9	82·6	+10·7
1888	52·5	14·3	9·6	4	80·4	88·4	+ 8·0
1889	62	16·0	9·8	9	96·8	114·0	+17·2
1890	57·0	18·3	10·0	7	92·3	101·2	+ 8·9
1891	56·5	15·5	10·2	5	87·2	128·7	+41·5
1892	52·3	13·2	10·4	4	79·9	135·6	+55·7
1893	52	13·7	10·6	4	80·3	131·2	+50·9
1894	52	11·8	10·8	4	78·6	145·3	+66·7
1895	50·2	11·9	11·0	5	78·1	145·9	+67·8
1896	54·0	13·6	11·2	7	85·8	139·0	+53·2
1897	57·7	14·0	11·4	7	90·1	156·0	+65·9
1898	65·5	15·8	11·6	8·5	101·4	182·7	+81·3
1899	64·5	18·0	11·8	9·1	103·4	174·5	+71·1
1900	76·3	20·2	12·0	8·5	117·0	184·8	+67·8
1901	60	19·1	12·2	9·1	100·4	189·5	+89·1
1902	60	18·3	12·4	5·8	96·5	190·3	+93·8
1903	64·5	20·0	12·6	4·2	101·3	186·3	+85·0
1904	66	19·2	12·8	4·4	102·4	183·7	+81·3
1905	72·5	19·4	13·0	5·4	110·3	169·0	+58·7
1906	85	25·3	13·2	8·6	132·1	157·7	+25·6
1907	90	29·9	13·4	10·0	143·3	143·1	− 0·2
1908	79	20·9	13·6	10·5	124·0	140·1	+16·1
1909	83	21·6	13·8	5·8	124·2	167·6	+43·4
1910	95	26·7	14·0	8·7	144·4	159·6	+15·2
1911	110	26·3	14·2	5·7	156·1	134·9	−21·2
1912	156 *	29·9	14·4	7·0	207·3 *	157·3	−50·0

* These figures are probably excessive, as explained on p. 187.

Foreign investments in the United Kingdom are small in amount compared with British investments abroad, and the amount paid to foreigners as interest



is likewise comparatively unimportant. It is true that a good many foreign accounts are held by English bankers, while the number of foreign banks with branches in London has increased in recent years, and their capital and reserve funds have increased

still more.[1] Foreign, commercial, and business firms have also probably become more important, though it may be doubted whether foreign holdings of British securities have increased at the same pace. On the whole, perhaps it may be justifiable to assume that new foreign investments in the United Kingdom are about balanced by interest payments on capital previously invested here. On this assumption, the figures in the last column on page 197 may be taken to represent the excess or deficiency in the amount of interest brought home on British foreign investments, over or below the amount of new capital invested abroad in each year. By making a separate estimate of the amount of interest which British investors obtain in each year, we shall thus be in a position to ascertain the actual amount of British capital flowing abroad year by year.

An estimate of the income derived from foreign investments may be made from the figures published by the Inland Revenue authorities, relating to income from abroad, so far as it can be identified, assessed for income-tax. The actual amount is very much bigger than shown in those figures, for as the Commissioners of Inland Revenue explain in their report for 1912–13 :—

> There exists a large amount of income from abroad which in many cases cannot (in the absence of details which the taxpayer alone could furnish) be identified as such in the assessments, and which is, therefore, included in the sum of

[1] W. F. Spalding, "The Growth of Foreign Branch Banks in London," *Journal of the Institute of Bankers*, November 1911.

£421,755,759 appearing under the head of Businesses, Professions, etc., not otherwise detailed.

The incomes which are not included in the Commissioners' returns are those derived from the following sources :—

Concerns (other than railways) situated abroad, but having their seat of direction and management in this country, *e.g.* mines, gas works, water works, tramways, breweries, tea and coffee plantations, nitrate grounds, oil fields, land and financial companies, etc.

Concerns jointly worked abroad and in this country, such as electric telegraph cables, and shipping.

Foreign and colonial branches of banks, insurance companies and mercantile houses in the United Kingdom.

Mortgages of property and other loans and deposits abroad belonging to banks, insurance companies, land, mortgage and financial companies, etc., in this country.

Profits of all kinds arising from business done abroad by manufacturers, merchants, and commission agents resident in the United Kingdom.

The amount of income derived from abroad, as shown by the Inland Revenue Commissioners, is given in the following table, from the financial year 1877–78, when income from abroad was first distinguished :—

1877–1878	£28,774,053	1887–1888	£46,978,371
1878–1879	28,553,504	1888–1889	49,999,808
1879–1880	28,591,296	1889–1890	52,310,212
1880–1881	29,950,557	1890–1891	55,488,832
1881–1882	30,573,706	1891–1892	54,728,770
1882–1883	31,890,423	1892–1893	55,170,502
1883–1884	33,829,124	1893–1894	55,118,029
1884–1885	34,763,542	1894–1895	53,506,258
1885–1886	39,024,673	1895–1896	54,901,079
1886–1887	44,508,002	1896–1897	56,318,967

1897–1898	£56,639,666	1905–1906	£73,899,265
1898–1899	59,709,903	1906–1907	79,560,116
1899–1900	60,266,886	1907–1908	85,116,246
1900–1901	60,331,525	1908–1909	88,837,393
1901–1902	62,559,479	1909–1910	93,264,004
1902–1903	63,828,715	1910–1911	100,952,723
1903–1904	65,865,306	1911–1912	103,894,667
1904–1905	66,062,109		

For the years 1875–76 and 1876–77 the amounts may be placed at £30,000,000 and £28,300,000, as the Inland Revenue Commissioners state that the income from abroad fell off, and that in 1876–77 the income from colonial and foreign Government securities declined by £2,000,000, owing to non-payment of interest on Egyptian, Turkish, Peruvian, Anglo-Dutch, and Nicholas loans.

Sir George Paish estimates[1] that, in 1907, the unidentified income, derived by British investors from capital abroad, amounted to nearly £58,000,000, excluding the income from money deposited in Indian, colonial, and foreign banks by persons residing in this country, and the large amounts derived from capital privately placed abroad. It is, however, impossible, by examining the reports, balance sheets, and income statements of British companies working abroad, to obtain reliable information as to the income of British investors, or as to the capital which they own. British companies are merely concerns registered in the United Kingdom, and their capital may or may not be owned in this country. On the other hand, a great deal of British capital is invested in industrial companies registered abroad; and Sir

[1] *Statistical Journal*, September 1909.

George Paish believes that the amount of capital privately invested abroad by British subjects amounts to several hundred millions sterling. In any case, therefore, the estimate of £140,000,000 can be but a very rough approximation to the total income actually derived from abroad by British investors in 1907.

In the present calculation it will be assumed that the income not earmarked as coming from abroad, though in fact derived from foreign investments, changed approximately in proportion to the amount actually identified by the Inland Revenue Commissioners as being derived from abroad. Sir George Paish's estimate for 1907 is adopted as the basis of calculation, and it will be seen that the figures for the early years of the period tally closely with contemporary and other estimates. Thus an estimate, quoted in the preceding chapter, placed the income from abroad in 1881 at some 52½ millions, while the present estimate for that year is about 50½ millions. In 1876 the income from investments in India and America was supposed to be about £30,000,000;[1] so that, adding in European and other investments, the sum of £46,500,000, which is here taken as the interest from abroad, should not be far wide of the mark. Again, Sir Robert Giffen reckoned the amount of capital invested abroad to be 1302 millions in 1885, and 1600 millions in 1895. At 5 per cent, the interest on these sums would be 65 millions and 80 millions, compared with the present estimate of 64 millions and 90½ millions.

[1] *Economist*, 1876.

The final stage in our present calculation may now be shown in a table. In the first column is given the interest on British investments, estimated to have been derived from abroad in each year. The figures of the Inland Revenue officials relate to the financial year (April to March), but, for the present purpose, the figures are assumed to be identical with those for the calendar year in which the greater part of the financial year is included. The second column represents the difference between interest coming home and new foreign investment. The figures in the third column are obtained by subtraction, and show the amount of capital estimated to have been invested abroad in each year.

[TABLE

IN MILLIONS STERLING.

Year.	Estimated Income from Abroad.	Balance of Capital and Interest Transactions.	Export of Capital.
1870	44·0 *	+12·3	31·7
1871	46·0 *	−17·5	63·5
1872	48·0 *	−35·5	83·5
1873	50·0 *	−22·3	72·3
1874	52·0 *	− 1·0	53·0
1875	49·5	+23·0	26·5
1876	46·5	+49·8	− 3·3
1877	47·5	+62·9	−15·4
1878	47·0	+48·3	− 1·3
1879	47·3	+35·2	12·1
1880	49·5	+45·4	4·1
1881	50·5	+17·3	33·2
1882	52·5	+28·2	24·3
1883	55·8	+38·9	16·9
1884	57·0	+16·0	41·0
1885	64·0	+30·1	33·9
1886	73·0	+11·2	61·8
1887	77·5	+10·7	66·8
1888	82·5	+ 8·0	74·5
1889	86·0	+17·2	68·8
1890	91·5	+ 8·9	82·6
1891	90·0	+41·5	48·5
1892	91·0	+55·7	35·3
1893	91·0	+50·9	40·1
1894	88·0	+66·7	21·3
1895	90·5	+67·8	22·7
1896	92·5	+53·2	39·3
1897	93·0	+65·9	27·1
1898	98·5	+81·3	17·2
1899	99·0	+71·1	27·9
1900	99·0	+67·8	31·2
1901	103·0	+89·1	13·9
1902	105·0	+93·8	11·2
1903	108·0	+85·0	23·0
1904	108·5	+81·3	27·2
1905	121·5	+58·7	62·8
1906	130·0	+25·6	104·4
1907	140·0	− 0·2	140·2
1908	146·0	+16·1	129·9
1909	153·5	+43·4	110·1
1910	166·0	+15·2	150·8
1911	171·0*	−21·2	192·2
1912	176·0*	−50·0	226·0 †

* These figures are assumed.

† This figure is probably excessive, for the reasons explained in the footnote on p. 187.

These figures clearly show the enormous fluctuations which have occurred at different times in the amount of capital invested abroad. In the 'seventies a huge wave of capital exports gave way to an actual import of capital for a few years, the securities taken up in previous years being either sold to foreigners, or not replaced by corresponding investments on redemption. In the 'eighties we find, on the whole, an increasing efflux of capital, culminating in 1890, after which the export of capital fell off to a lower figure, though it revived somewhat in 1896, in 1899, and in 1900. A new slump after the South African War was followed by exports of capital on an unprecedented scale from 1905 onwards, the amount being probably about £200,000,000 in 1912.

In concluding the present chapter it may be remarked that the results obtained, unavoidably rough as they are, resemble those obtained in an investigation of Dr. Bowley[1]:—

> It appears that before 1854 we had some £550,000,000 invested abroad, in Government loans and railways presumably. Increasing annual investment, averaging £30,000,000 per annum, which would largely take the form of machinery and stock for railways, and manufactures, which would pay the wages of the labourers employed in their construction, brought the total in 1860 to about £750,000,000.
>
> During the cotton crisis slightly less capital appears to have been invested; but from 1870–75, during the great inflation before and after the Franco-Prussian War, some £55,000,000 annually brought the total to not much less than £1,400,000,000. A reaction followed, and for three years there was very little investment, but from 1881 to 1890 it seems not improbable that £600,000,000 was added, and the total brought to £2,000,000,000.

[1] *England's Foreign Trade in the 19th Century*, p. 75.

CHAPTER VIII

CAPITAL EXPORTS, INDUSTRY, AND EMIGRATION

In the present chapter the results of the preceding investigation will be used for the purpose of tracing possible similarities with other statistics relating to the United Kingdom. The relation between capital exports and home industry is in many respects interesting, and though we cannot show by means of statistics what would have been the precise position at home had capital not been exported during a given period, we may nevertheless hope to obtain some evidence as to whether changes in home and foreign investment occur simultaneously or not; and as to the relation between foreign investment and cyclical fluctuations of trade, unemployment, wages, and emigration.

The amount of capital invested in the United Kingdom is perhaps even more difficult to determine within reasonable limits of error than the amount of capital invested abroad; and though estimates have been made, the possible error is so great that it would be of little value to compare them directly with estimates of the amount of British capital invested abroad. The indication which the figures

may provide as to the *rate* of growth of British capital at home and abroad respectively is not likely, however, to be impaired to the same extent by the inaccuracy of the absolute figures, provided that the estimates are constructed on a similar basis. It may, therefore, be worth while to consider briefly the relative rates of growth of capital invested at home and abroad, taking for this purpose the estimates of Sir Robert Giffen, for several years, which were framed upon similar materials. Sir Robert Giffen's last estimate relates to the year 1885, but later estimates [1] were made for the year 1909, substantially upon the same basis, and will be used in the present comparison. The following figures represent the estimated value of British capital invested in the United Kingdom and abroad in the various years :—

Year.	Capital in United Kingdom.	Capital Abroad.	Total.
1875	..	..	£8,545,000,000
1885	£8,735,000,000	£1,302,000,000	10,037,000,000
1895	9,063,000,000	1,600,000,000	10,663,000,000
1905	11,009,000,000	2,025,000,000	13,036,000,000
1909	11,654,000,000	2,332,000,000	13,986,000,000

These figures support the view that, although foreign investments have increased at a greater percentage rate than domestic capital, yet the growth, measured absolutely, has been more rapid in capital invested at home than in capital invested abroad. The largest growth of home capital apparently occurred between 1895 and 1905; though

[1] Porter, *Progress of the Nation* (Ed. Hirst), p. 701.

between 1905 and 1909 the increase of 645 millions is equivalent to a growth per decade of 1612 millions, or but slightly less than in the period 1895–1905. If the rise in the level of prices after 1895 be taken into consideration, the rate of growth of capital both abroad and at home is reduced. According to Sauerbeck's index number, the level of prices, represented by 62 in 1895, was 72 in 1905, and 74 in 1909. If account be taken of this, the above table supports the view that capital invested in the United Kingdom increased nearly as rapidly between 1905 and 1909 as in the decade 1895 to 1905, when foreign investment was proceeding at a slower rate. In the years 1885–95 foreign investment was probably as rapid as in the succeeding decade, but home investment appears to have been slower. The figures, therefore, do not suggest any close connection between the amount of capital invested abroad and the amount invested in the United Kingdom, over periods of years. British capital both at home and abroad has increased, but the growth has been more rapid at one time in home investment, and at another in foreign investment.

No statistics have yet been compiled showing the fluctuations in home investments from year to year, which could be compared with the figures of capital exports, as estimated in the preceding chapter. It is, therefore, necessary to proceed by an indirect route, and to take, as indicating the movements of accumulation, the changes which have occurred from year to year in public issues of new capital (in London),

in the construction of ships, the increase in the number of cotton spindles, imports of timber, fluctuations of the building trades, and the production and consumption of materials which are mainly used in the production of capital goods for home investment. Statistics of deposits in the Post Office Savings Bank, it may be pointed out, are of little value, because the rate of interest payable on them has remained stationary, while the rate obtainable elsewhere has varied considerably. The Post Office was more attractive during the 'nineties, when the market rate of interest was low, than it has been in more recent years, when a higher return could easily be obtained in investments.

Figures as to the amount of new capital offered to the public in London have been compiled for many years past, and for several years classifications have been made in the *Economist*, and other newspapers, setting out the nature of the issues and the direction of investment. By carrying the classification of London capital issues for home and for foreign purposes back to 1870, it is possible that some clue may be given as to the fluctuations of accumulation. But unfortunately the connection between London public capital issues and saving, or investment of British capital, is not *prima facie* very close. When a prospectus is issued in London, the amount offered for subscription is not necessarily taken up by the public. If it is applied for, the investment does not necessarily signify that new capital has been accumulated: the fact may be merely that a private venture

is being converted into a joint stock company, and that the former proprietors are anxious to clear out. The money subscribed may take the place of a loan to some other concern now paid off at maturity.[1] Again, the inclusion of trust companies and other financial concerns tends to duplication, since the securities in which the trusts invest may also have been issued on the London market. The statistics of London public issues also neglect capital privately borrowed, or accumulated and used by the owners, and the amounts offered in places other than London. The subscription lists may be filled by foreigners as well as by British investors; and the inclusion of such sums tends to make the figures of foreign capital issues not comparable with capital exports. *Prima facie* it might seem that the capital issues in London, for foreign investment, represent the fluctuations of British capital exports more accurately than the capital issues figures for home investment represent the movements of capital invested at home. For investment in the United Kingdom takes place only to a very small extent through the medium of London prospectuses. In many cases, it is believed, the aid of London is only called in when capital required cannot be obtained elsewhere, from private individuals in the trade. On the other hand, capital invested abroad is mostly subscribed through London prospectuses, though even here the habit of importing securities not quoted in London is growing. Again, the time when loans are offered to the public does

[1] The *Economist* figures exclude "conversion loans."

not necessarily coincide with the time when capital goods are exported. The capital may be obtained on short term notes or treasury bills, and funded subsequently, or it may be borrowed from the public before it is actually wanted abroad, and exported by degrees as required. The falling off in capital exports in 1908 and 1909 is particularly noteworthy, as compared with the movement of capital issues for foreign investment, which fell in 1906 and 1907, but recovered in 1908, when money was cheaper.

The imperfections of capital issues statistics for home investment make it desirable, as has been explained, to obtain other indications as to the fluctuations of investment in the United Kingdom. Such indications, it is contended, may be sought in the amounts of the principal kinds of capital goods produced, and the production and consumption of materials used for making capital goods. Statistics of unemployment, in trades which produce capital goods for investment in the United Kingdom, may also be taken into account, for if there is a large amount of unemployment in these occupations at a particular time, it is presumably the case that the production of capital goods is small, while, if the amount of unemployment is small, the production of capital goods, and consequently saving, is large.

The investigation of the matter is, however, difficult. It does not necessarily follow that at times when the number of new buildings, new factories,

new ships or machines, and the like, is being rapidly increased, the less tangible forms of capital, and the more destructible instrumental goods, are growing at the same rate. Nor is it necessarily true that a slackening in the construction of new houses, etc., is accompanied by a slackening in the production of other forms of capital. In the last seven or eight years the building trade in this country has been, on the whole, less active than in the preceding years. But there is reason to suppose that more attention is being given to the production of capital invested in ships and machinery, as well as in human beings, through education, sanitation, etc. The demand for capital in some directions is obviously growing more rapidly than in others, while there are occupations in which the demand for capital is actually declining. If we consider, however, wide branches of industry, such as building (the product of which substantially represents an investment in the United Kingdom), and the construction of railways, tramways, and cotton spindles, it is probably legitimate to assume that diminished production means diminished accumulation, over short periods. The fluctuations of the statistics considered resemble, in general, the cyclical fluctuations of trade as a whole, and it would therefore seem that these fluctuations afford an important indication of the activity or slackness of home investment, comparing one year with the next.

In the following table the statistics of home capital issues are placed beside statistics of the

building trade (employment percentage, imports of timber and production of clay), statistics of new merchant ships built, statistics of cotton spindles, and statistics of tramway and railway mileage in operation :—

[TABLE

Year.	Capital Issues. Home Investment.	Employment. Carpenters' and Joiners' Union.	Imports. Sawn or Split Timber.	Production of Clay in United Kingdom.	Merchant Vessels built for Home and Colonies.	Increase in Number of Cotton Spindles.	Increased Mileage of Tramways, etc.	Increased Mileage of Railways working in United Kingdom.
	£1000.	Per cent.	Million Loads.	Million Tons.	1000 Net Tons.	1000.	Miles.	Miles.
1870	12,084	96·3	2·93	..	343	240	..	..
1871	14,191	97·5	2·86	..	354	400	..	..
1872	21,587	98·8	3·09	..	393	530	..	438
1873	24,779	99·1	3·43	..	371	940	..	268
1874	24,119	99·2	3·84	..	521	945	..	367
1875	15,772	99·4	3·31	..	421	607	..	209
1876	16,155	99·3	4·12	..	360	578	..	214
1877	21,103	98·8	4·58	..	434	400	56	205
1878	18,307	96·5	3·64	..	428	400	55	256
1879	15,769	91·8	3·26	..	357	100	52	363
1880	19,233	93·9	4·12	..	404	150	47	137
1881	29,284	94·8	3·67	..	501	350	120	242
1882	28,640	96·5	4·20	..	667	900	76	282
1883	24,792	96·4	4·32	..	768	1000	107	224
1884	25,464	95·3	4·05	..	497	1000	81	183
1885	14,455	92·9	4·24	..	405	Nil	59	305
1886	22,662	91·8	3·79	..	293	−300	54	163
1887	23,240	93·5	3·80	..	307	40	21	246
1888	30,330	94·3	4·36	..	483	Nil	22	234
1889	52,277	97·0	5·32	..	672	760	45	131

1890	29,598	97·8	4·78	..	652	250	−1	130
1891	20,193	98·1	4·38	..	671	1000	15	118
1892	20,890	96·9	5·09	..	693	600	−17	134
1893	12,630	96·9	4·76	..	495	−80	14	321
1894	19,554	95·7	5·45	..	575	Nil	15	262
1895	16,949	95·6	5·06	9·80	520	130	7	266
1896	37,971	98·7	6·03	11·34	520	−500	27	103
1897	41,030	98·8	7·02	12·71	482	Nil	22	156
1898	39,490	99·1	6·36	14·74	696	Nil	33	226
1899	40,357	98·8	6·64	15·06	749	300	58	41
1900	100,121	97·4	6·63	14·05	737	400	55	155
1901	106,585	96·1	6·28	14·16	776	500	128	223
1902	75,124	96·0	6·68	15·30	800	900	179	74
1903	44,868	95·6	6·74	16·20	629	Nil	..	283
1904	50,083	92·7	6·07	15·95	735	500	..	199
1905	48,426	92·0	5·99	15·13	851	1000	277	213
1906	39,314	93·1	6·69	15·29	922	1500	123	216
1907	32,988	92·7	5·99	14·83	741	2000	154	45
1908	50,052	88·4	5·49	14·40	413	2600	70	97
1909	18,681	88·3	5·72	14·07	511	1000	62	75
1910	60,296	91·7	6·00	14·09	601	..	36	107
1911	26,146	95·8	5·57	13·84	915	..	35	30
1912	45,335	96·3	5·77	12·81	899	..	45	24

The figures in the preceding table indicate that home investment in the important field of the building trade did not decline markedly—measured in terms of concrete capital—until the last two or three years of the 'seventies. In 1879 employment in the building trade was very poor, and imports of timber were low. Investment in new ships declined from 1874 to 1876, then improved, but was small again in 1879. The construction of new railways and cotton spindles also fell off after 1876, though railway construction revived in 1878–79. It would thus appear probable that there was some falling off in home investment between 1876 and 1879, corresponding with a decline of capital exports. There is, however, no reason to suppose that the aggregate home capital was actually reduced, as foreign investments appear to have been; there was only a slackening in the rate of growth. Home investment appears to show a renewed increase during the early 'eighties, marked by growing imports of timber, and the development of shipbuilding, cotton spindles, railways, and tramways. As in the statistics of home capital issues, a depression seems again to have occurred in the middle 'eighties, replaced later in the decade by a revival in building and shipbuilding, though not till 1889 in cotton spinning, and not at all in railways and tramways. After 1891–92 there appears to have been a decline in the building trade, and also in the shipbuilding and cotton trades; but investment in railways and tramways was increasing until 1895, when the movements were reversed, except in the cotton trade and

tramway construction. No very definite conclusion emerges as to the state of home investment during the years after 1890, when foreign investment was on a small scale; for the movements of the building trade were in some measure compensated by opposite movements in railway construction. Probably, however, the fluctuations of building and shipbuilding are of greater importance than those of railway mileage; and, on this assumption, home investment declined from about 1890 to 1895, and revived during the next three or four years, reaching a high point in 1898 or 1899. After that, there was for some years weakness in the building trade, counterbalanced to some extent by large investments in ships, cotton spindles, and tramways. In 1906 all the trades show increases, with the sole exception of railway construction. There was probably a considerable increase of home investment. In 1910 a marked revival set in in the building trade, while the tonnage of new ships constructed also showed an increase. That year apparently marked the beginning of a period of active capital investment in British trade and industry.

Let us now proceed to consider the relation between home and foreign investment; and the relation between capital exports, as estimated in the preceding chapter, and capital issues for foreign investment. The statistics of capital issues for foreign investment have been compiled for the years preceding 1903, like the statistics for home investments, from the lists of new issues published monthly in the *Investors' Monthly Manual*. From 1903 onwards the figures

are those published in the *Economist* and *Investors' Monthly Manual.* A large amount of capital for investment abroad was offered both in London and on the Continent. For the purpose of obtaining a single

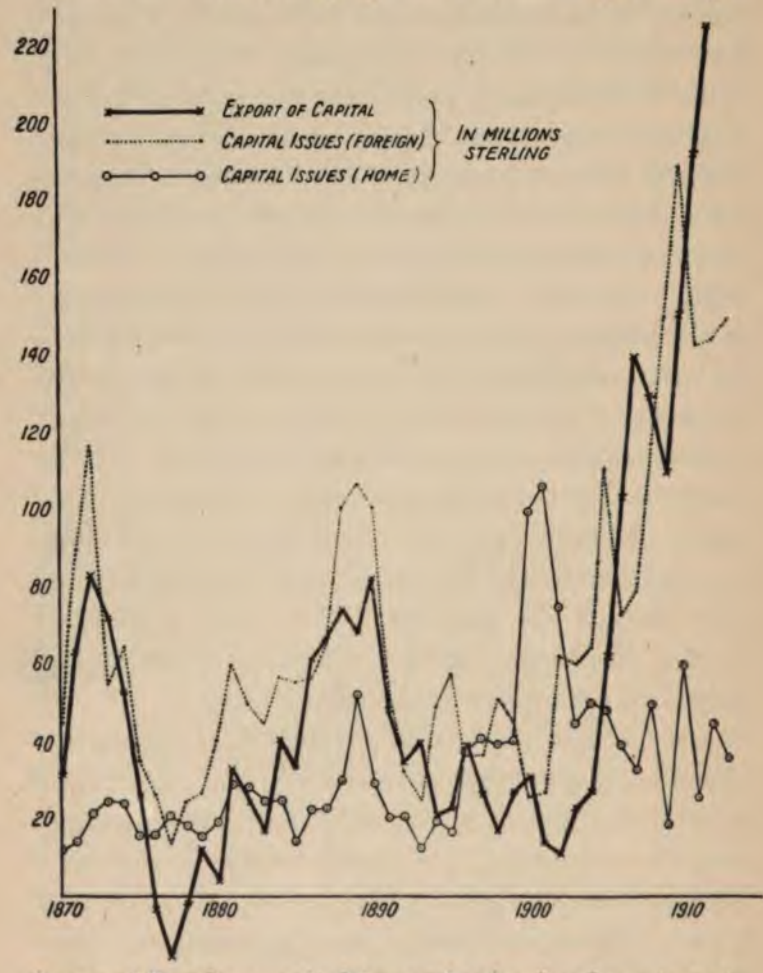


figure of London capital issues for foreign investment, it is assumed, in Column 5 of the following table, that half the amount "subscribed partly on the Continent" was actually subscribed through London :—

New Capital Issues in London

In Thousands of £.

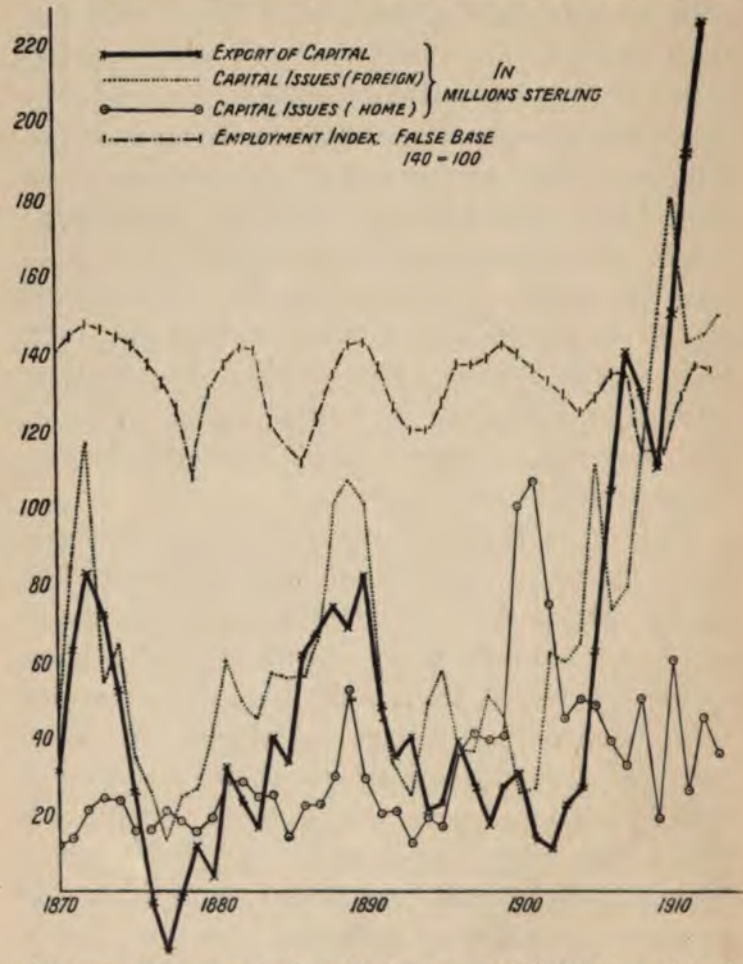
Year.	For Investment in United Kingdom.	For Investment Abroad.	Subscribed partly on the Continent.	Column 2 plus half of Column 3.	Capital Exports.
1870	12,084	22,375	45,643	45,196	31,700
1871	14,191	23,678	121,224	84,290	63,500
1872	21,587	35,153	163,363	116,834	83,500
1873	24,779	33,468	42,799	54,867	72,300
1874	24,119	42,371	44,071	64,406	53,000
1875	15,772	25,316	19,773	35,202	26,500
1876	16,155	25,944	770	26,329	– 3,300
1877	21,103	9,948	7,545	13,720	– 15,400
1878	18,307	17,902	14,227	25,015	– 1,300
1879	15,769	22,411	9,276	27,049	12,100
1880	19,233	22,994	35,384	40,686	4,100
1881	29,284	34,120	51,857	60,048	33,200
1882	28,640	33,519	32,519	49,778	24,300
1883	24,792	38,822	13,303	45,473	16,900
1884	25,465	48,790	16,348	56,964	41,000
1885	14,455	48,369	15,051	55,894	33,900
1886	22,662	47,680	17,134	56,247	61,800
1887	23,240	60,921	9,507	65,674	66,800
1888	30,330	95,534	11,389	101,228	74,500
1889	52,277	99,236	15,792	107,132	68,800
1890	29,598	91,119	20,290	101,264	82,600
1891	20,193	46,616	9,234	51,233	48,500
1892	20,890	26,323	12,050	32,348	35,300
1893	12,630	21,121	8,202	25,222	40,100
1894	19,554	43,112	11,556	48,890	21,300
1895	16,949	47,695	19,855	57,622	22,700
1896	37,971	28,141	18,281	37,281	39,300
1897	41,030	32,817	7,747	36,690	27,100
1898	39,490	40,299	21,412	51,005	17,200
1899	40,357	41,788	8,144	45,860	27,900
1900	100,121	19,841	12,456	26,069	31,200
1901	106,585	26,050	1,857	26,978	13,900
1902	75,124	57,282	9,844	62,204	11,200
1903	44,868	56,436	7,155	60,013	23,000
1904	50,083	56,308	16,617	64,616	27,200
1905	48,426	100,737	19,760	110,617	62,800
1906	39,314	64,085	17,821	72,995	104,400
1907	32,988	68,108	22,452	79,334	140,200
1908	50,052	93,591	48,561	117,871	129,900
1909	18,681	137,262	26,413	150,468	110,100
1910	60,296	152,522	54,620	179,832	150,800
1911	26,146	119,868	45,745	142,740	192,200
1912	45,335	123,605	41,910	144,560	226,000
1913	35,951	138,884	21,702	149,735	..

The statistics of new capital issues for investment in the United Kingdom fluctuated, during the period 1870–95, in a manner not dissimilar from the statistics of capital exports, and of capital issues for foreign investment. But later very little resemblance can be traced. All the curves show an increase during the early 'seventies, followed by a decline after the great boom. Home capital issues showed a tendency to increase in 1876 and 1877, while the two other curves were falling. After 1880 all three curves rose somewhat, and after 1885 the rate of advance was rapid, until the top point was reached in 1889, or, in the case of capital exports, 1890. After that, home and foreign investment fell off greatly until about 1893 or 1894, when home capital issues began to recover. Foreign capital issues were also greater until 1900, but the curve shows fluctuations. Capital exports also fluctuated during these years, and the movements were contrary to those of foreign capital issues. In 1900 and 1901, home capital issues mounted to a peak, largely owing to British Government issues on account of the South African War. The British Government borrowed £47,214,000 in 1900, £74,240,000 in 1901, and £33,870,000 in 1902, but this was an abnormal investment. Foreign capital issues and capital exports, during the South African War, were on a small scale, and the recovery was not marked until 1903 or 1904, when a very rapid increase began. Home capital issues declined in 1902 and 1903, and, after a slight increase in 1904, fell steadily till 1907. Capital exports were at their height in 1907, but

foreign capital issues were lower in 1906 and 1907 than in 1905. Home capital issues were very low in 1909 and 1911, but capital exports were growing, while foreign capital issues, after a fall in 1911, rose again in 1912. On the whole, home capital issues, during the first half of the period under consideration, moved in some noticeable relation to the other curves. But in the last twenty years home capital issues have often fluctuated in a contrary direction to foreign capital issues; while the latter in turn have been less similar to capital exports. Thus capital exports appear to have declined in 1908 and 1909, while foreign capital issues declined in 1907 and 1908. The falling off in foreign capital issues in 1911 does not correspond with a similar movement in the curve of capital exports.

The results of this inquiry, tentative as they are, would appear to suggest that home investment has, on the whole, been active in years when foreign investment has been active, though activity of home investment during the middle 'seventies coincided with depression of foreign investment. Probably home investment is subject to smaller fluctuations than foreign investment, and there has probably not been a time in the period under consideration when fresh capital has not been added to that already invested in the United Kingdom. On the question of amounts, however, it is impossible to speak with any confidence: the figures in the preceding table prove little. The comparison suggests that the figures of London capital issues for home investment give

perhaps a more correct view than might be supposed of the main fluctuations of home investment, the chief qualification being the figures of the South



African War period, which are artificially inflated by the inclusion of large Government loans.

Taking our three curves of capital exports, and foreign and home capital issues, we may now com-

Year.	Capital Issues.		Export of Capital.	Index of Money Wages (Board of Trade).	Index Number of Employment (1900=100).
	Home Investment.	Foreign Investment.			
	£1000	£1000	£1000		
1870	12,084	45,196	31,700	(? 78·10)	99·1
1871	14,191	84,290	63,500	(? 81·0)	101·2
1872	21,587	116,834	83,500	(? 85·80)	102·0
1873	24,779	54,867	72,300	(? 91·30)	101·7
1874	24,119	64,406	53,000	91·73	101·3
1875	15,772	35,202	26,500	90·30	100·7
1876	16,155	26,329	– 3,300	89·42	99·4
1877	21,103	13,720	– 15,400	88·33	98·4
1878	18,307	25,015	– 1,300	85·14	96·5
1879	15,769	27,049	12,100	83·35	91·9
1880	19,233	40,686	4,100	83·27	97·5
1881	29,284	60,048	33,200	84·78	99·3
1882	28,640	49,778	24,300	85·83	100·5
1883	24,792	45,473	16,900	85·84	100·3
1884	25,465	56,964	41,000	85·04	95·6
1885	14,455	55,894	33,000	83·63	94·1
1886	22,662	56,247	61,800	82·86	93·1
1887	23,240	65,674	66,800	83·02	95·6
1888	30,330	101,228	74,500	84·72	98·7
1889	52,277	107,132	68,800	87·51	100·8
1890	29,598	101,264	82,600	90·26	100·8
1891	20,193	51,233	48,500	91·54	99·4
1892	20,890	32,348	35,300	90·06	96·6
1893	12,630	25,222	40,100	90·13	95·0
1894	19,554	48,890	21,300	89·49	95·0
1895	16,949	57,622	22,700	89·11	96·7
1896	37,971	37,281	39,300	89·92	99·3
1897	41,030	36,690	27,100	90·80	99·2
1898	39,490	51,005	17,200	93·20	99·7
1899	40,357	45,860	27,900	95·37	100·5
1900	100,121	26,069	31,200	100·00	100·0
1901	106,585	26,978	13,900	99·07	99·0
1902	75,124	62,204	11,200	97·78	98·2
1903	44,868	60,013	23,000	97·20	97·5
1904	50,083	64,616	27,200	96·67	96·0
1905	48,426	110,617	62,800	97·03	97·1
1906	39,314	72,995	104,400	98·42	98·7
1907	32,988	79,334	140,200	101·77	98·5
1908	50,052	117,871	129,900	101·23	93·6
1909	18,681	150,468	110,100	99·98	93·6
1910	60,296	179,832	150,800	100·32	97·3
1911	26,146	142,740	192,200	100·46	99·3
1912	45,335	144,560	226,000	102·98	..

pare them with the chief statistics relating to the condition of work-people in the United Kingdom—the statistics, namely, of unemployment and of wages. The wages statistics consist of the Board of Trade index number of money wages; and the employment statistics are the Board of Trade index of employment, compiled from Trade Union returns.

A comparison of the statistics shows a general resemblance between changes in investments and labour conditions. In the 'seventies, employment and wages declined slowly after the boom, until 1879 (or in the case of wages until 1880). Labour in the United Kingdom was comparatively little affected by the causes that produced the slump in foreign investment, and home investment remained active. The early 'eighties saw an improvement in home and foreign investment, as well as in wages and employment, but in the middle 'eighties there was a decline in investment and a fall of wages and employment. At the end of the decade there was a renewed advance all round, followed in the early 'nineties by another depression, which gave way again after 1897–98. A slump occurred after the Boer War, followed after 1904 by another improvement, particularly in foreign investment and capital exports. Home capital issues do not necessarily indicate home investment, but there was, as we saw earlier in the present chapter, a large growth of capital in the United Kingdom during the period 1905–9. The years 1908 and 1909 mark a fresh depression, which began to give way in 1910.

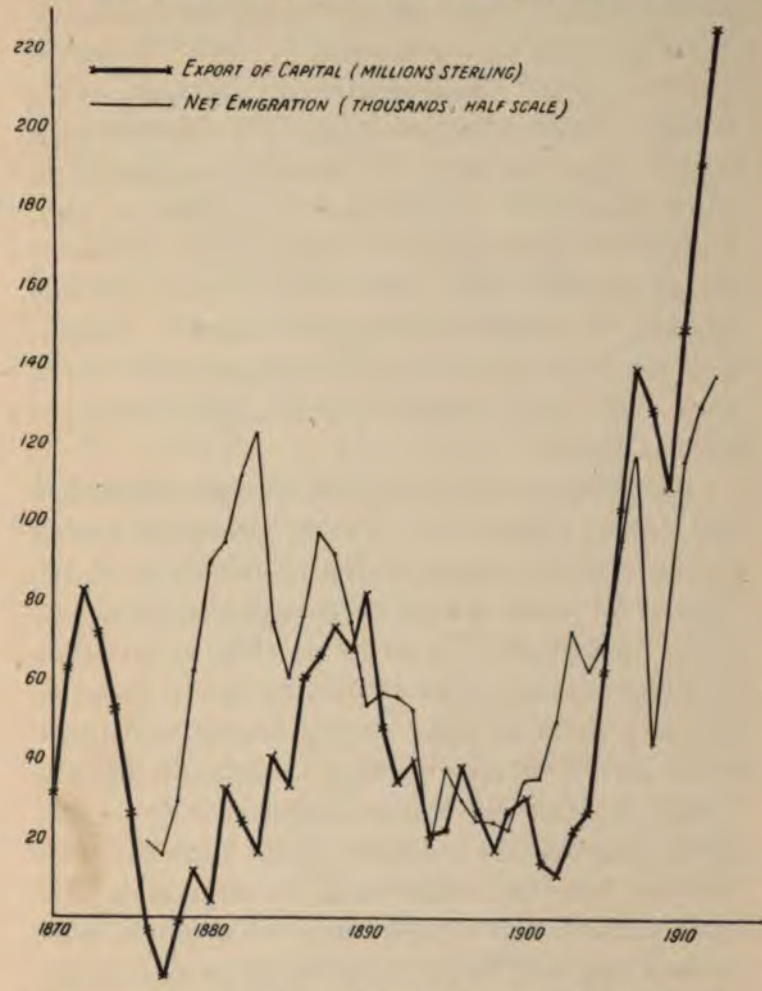
The resemblance just traced does not, of course,

prove that large investments are beneficial to labour while they are being made. It is equally possible, and more probable, that the causes making for industrial activity stimulate investment at home and abroad, and make for higher wages and diminished unemployment.

Let us now proceed to the last statistical comparison which was proposed at the beginning of the present chapter, namely, the comparison of foreign investments and capital exports with the emigration returns for the United Kingdom. For, as we have seen, a growth of capital abroad tends to imply an increased demand for labour abroad, while a growth in the amount of labour abroad tends to bring about an increased demand for capital in foreign countries. Thus foreign investment and emigration may be expected to fluctuate in some relation with one another. Unfortunately, the British emigration and immigration statistics, until quite recently, only took into account passengers travelling to and from places out of Europe. In view of the deficiencies of the statistics, it has appeared advisable to take for our comparison only British and Irish immigrants and emigrants, so as to avoid the confusion which would result from reckoning in many foreign emigrants who go to America or Canada from the United Kingdom, after spending but a short time in this country. Such persons coming from Europe would not be included among immigrants into the United Kingdom, and their inclusion among emigrants would impair the statistics for the purpose in hand.

Year.	Capital Issues for Foreign Investment.	Export of Capital.	British Emigrants.	British Immigrants.	Outward Balance of Emigrants.
	£1000	£1000			
1870	45,196	31,700	202,511	..	..
1871	84,290	63,500	192,751	..	..
1872	116,834	83,500	210,494	..	..
1873	54,867	72,300	228,345	..	..
1874	64,406	53,000	197,272	..	..
1875	35,202	26,500	140,675	..	..
1876	26,329	– 3,300	109,469	71,404	38,065
1877	13,720	– 15,400	95,195	63,890	31,305
1878	25,015	– 1,300	112,902	54,944	57,958
1879	27,049	12,100	164,274	37,936	126,338
1880	40,686	4,100	227,542	47,007	180,535
1881	60,048	33,200	243,002	52,707	190,295
1882	49,778	24,300	279,366	54,711	224,655
1883	45,473	16,900	320,118	73,804	246,314
1884	56,964	41,000	242,179	91,356	150,823
1885	55,894	33,000	207,644	85,468	122,176
1886	56,247	61,800	232,900	80,018	152,882
1887	65,674	66,800	281,487	85,475	196,012
1888	101,228	74,500	279,928	94,133	185,795
1889	107,132	68,800	253,795	103,070	150,725
1890	101,264	82,600	218,116	109,470	108,646
1891	51,233	48,500	218,507	103,037	115,470
1892	32,348	35,300	210,042	97,780	112,262
1893	25,222	40,100	208,814	102,119	106,695
1894	48,890	21,300	156,030	118,309	37,721
1895	57,622	22,700	185,181	109,418	75,763
1896	37,281	39,300	161,925	101,742	60,183
1897	36,690	27,100	146,460	95,221	51,239
1898	51,005	17,200	140,644	91,248	49,396
1899	45,860	27,900	146,362	100,246	46,116
1900	26,069	31,200	168,825	97,637	71,188
1901	26,978	13,900	171,715	99,699	72,016
1902	62,204	11,200	205,662	104,115	101,547
1903	60,013	23,000	259,950	112,914	147,036
1904	64,616	27,200	271,435	144,581	126,854
1905	110,617	62,800	262,077	122,712	139,365
1906	72,995	104,400	325,137	130,466	194,671
1907	79,334	140,200	395,680	160,588	235,092
1908	117,871	129,900	263,199	172,043	91,156
1909	150,468	110,100	288,761	149,068	139,693
1910	179,832	150,800	397,848	164,139	233,709
1911	142,740	192,200	454,527	192,718	261,809
1912	144,560	226,000	467,666	191,181	276,485

An examination of the preceding table shows that here too there is, generally speaking, a resemblance



between changes in emigration and capital exports. Emigration, like capital exports, fell off after the boom of 1872–73, and reached its lowest point in 1877, a year in which there appears to have been a con-

siderable import of capital. From 1878, the outward balance of British emigrants and immigrants rose steadily till 1883, and after a temporary slackening, increased again to a maximum in 1887. Thence it declined almost continuously till the end of the century. Capital exports apparently reached their highest point in 1890, but became comparatively small after 1891. After the turn of the century, emigration again began to grow, and advanced almost steadily until 1907, when it was suddenly arrested, in common with capital exports. Emigration increased again to an unprecedented extent after 1909, while capital exports again began to grow in 1910.

The causes of this correlation between emigration and capital exports are in some measure a matter for speculation. Doubtless an improvement in the demand for labour abroad encourages emigration and checks immigration, in so far as there is no corresponding increase in the demand for labour at home. But as a boom at home usually corresponds with a boom abroad, it may perhaps be inferred that the foreign demand for labour during periods of prosperity increases to a greater extent than the home demand. On the other hand, it is possible that some persons who cannot afford to emigrate when trade is bad, may be able to pay their passage money when trade is good. Capital exports are also more active when the foreign demand for capital increases; and as the demand for capital and the demand for labour tend to move together, activity of foreign

investment in general corresponds with large emigration. One difference between capital and labour probably is that the supply of the former increases more readily in response to an increased demand than the supply of the latter. It might, therefore, be expected that capital exports would oscillate more widely than emigration, because new capital can be produced more speedily than new British workmen. And, in fact, the figures would seem to indicate a wider percentage fluctuation in capital exports than in emigration; though how far this may be due to the greater alertness and fluidity of capital than of labour it is impossible to say.

The statistics do not indicate how far foreign investment causes emigration, nor how far emigration causes foreign investment. Each movement is doubtless to some extent both a cause and a consequence of the other, and each would exist in some measure if the other were abolished. There would be some emigration even if British capital were prevented from going abroad; and there would be some foreign investment even if emigration were stopped. Probably over short periods this interdependence is not very close; though, over a long series of years (say, during the period since 1870), the prevention of emigration might have curtailed foreign investment to a much greater extent, and *vice versa*. Whether, or how far, interference with foreign investment would make for the prosperity and welfare of the United Kingdom and its inhabitants is a subject which has been discussed at some length in an earlier chapter. Suffice

it now to say that the existence neither of emigration nor of foreign investment necessarily signifies that a country will in the long run be poorer in population, in capital invested at home, or in the well-being of its inhabitants.

CONCLUSION

In conclusion, it will be well briefly to sum up the chief points of the preceding analysis and description, and to indicate the main results that have emerged.

The first chapter was devoted to a consideration of the methods by which capital is exported, and to a discussion of the way in which British foreign investments are actually built up. The inhabitants of a country export capital when they forgo in favour of foreign countries or individuals the immediate use of goods and services to which they are entitled, with the aim of obtaining from abroad an income of goods or services. Thus foreign investment represents an immediate increase of what may broadly be called exports, relatively to what may be called imports, in order to secure an ultimate increase of imports relatively to exports. The relative growth of exports may take the form either of an actual increase in the exports beyond what would otherwise be exported, or of a diminution in the imports below what would otherwise be imported. It is difficult to show, in the case of any particular country, how far either method is adopted, because it is not always possible to point to any particular goods or services

as representing capital. In the case of the United Kingdom—and indeed of other investing countries—the capital exported goes largely in the form of goods sent abroad; but an important part also represents goods not brought home, and this is especially the case with investments in the United States and Canada. In some countries, banks and financial concerns frequently endeavour to encourage the export of capital in the form of goods sent out from the investing country, rather than in the form of wealth not brought in. This obviously tends to alter the character of national industry in the investing country, by stimulating those branches of production which produce capital goods, at the expense of those industries which would be encouraged if imports had been cut down in the process of exporting capital. Thus the effect of promoting iron exports might be to encourage imports of agricultural produce, and to depress home agriculture.

In the second chapter the causes of foreign investment were examined. The principal motive which influences investors is the hope of obtaining a higher money return than could be obtained by investment at home. States may be influenced by the motive of obtaining political advantages or prestige, but though this factor operates powerfully with many Governments when they assist or hinder investment by private financiers and individuals, direct foreign investment by Governments is of little importance compared with the immense mass of investment by private corporations and individuals. Private

persons, it is true, may also be affected by non-economic considerations, but these are also of subordinate importance. Generally speaking, individuals will so distribute their capital between home and foreign investments that the economic advantages, which they expect to derive from the last unit of capital invested abroad, are equal to the economic advantages which they expect to derive from the last unit of capital invested at home. The proportion between the two amounts depends upon the view which investors take of the relative remunerativeness of the two fields of investment, that is, upon their opinion of the demand for capital abroad and at home.

But what the results of particular investments will be is always more or less uncertain, and it is, therefore, necessary to consider the degree of knowledge which investors possess of particular areas in which capital can be invested, and the extent to which they are willing to act in the dark. The difficulty of acquiring knowledge depends partly upon the distance, partly upon such factors as trade relations, language, and the degree of resemblance between the social life and institutions of the investing country and the country invested in. Increased facilities for obtaining reliable information are likely, on the whole, to stimulate investment in countries which possess resources to be developed, though they may check the wilder forms of speculation. Such improvement in facilities for obtaining information, has been, in recent years, one of the principal factors making for the extension of investment. It is true that mis-

leading and false information is still published widely for the purpose of deceiving investors; and the increasing class of small capitalists with little or no knowledge of finance is apt to fall a prey to the interested machinations of artful swindlers. On the other hand, there is a vast growth in the amount of wealth invested indirectly through insurance and finance companies which are able to employ experts, and to buy valuable information at a great cost. These expert investors, who have a large capital at their disposal, are in an advantageous position for spreading their investments, geographically or otherwise, so as to obtain a high return, while running no greater risks on their aggregate holdings than the individual who obtains a lower return from a small investment in some gilt-edged stock. Differences in the knowledge possessed by investors, in their wealth, and in their willingness to bear risks, may result in cross investment between countries. Thus Canadian and South American industries borrow from the United States, but the United States in turn borrows from Great Britain.

The effect of Government policy on the amount of capital invested abroad and at home, respectively, was considered in the same chapter. Any action which diminishes the amount of wealth produced at home is likely to injure the demand for capital at home, and so to make for foreign investment. On the other hand, the supply of capital may also be checked, and the amount of capital invested abroad may thereby be reduced. By taxing foreign invest-

ments at a higher rate than home investments, Government action may do something to increase the amount of capital invested at home, during short periods, at any rate, provided that the fall in the rate of interest does not greatly check saving. But over longer periods, it is probable that the checking of foreign investment would injure the demand for capital at home, and so tend to diminish the amount invested at home.

This question was further discussed in the third chapter. It was shown that where the amount of capital exported is small, so that the rate of interest at home is practically unaffected, the loss to home production, resulting from the fact that the capital is not invested at home (or is withdrawn from home investment), is measured by the income which would have been obtained from the home investment. If the rate of interest at home is materially increased as the immediate result of foreign investment, the loss to home production is greater than the amount of income which would have been obtained from home investment. But, in either case, the amount of the national income from all sources is presumably increased by the higher return obtained from investment abroad, except in so far as the amount of labour at home may be reduced by emigration. This effect upon emigration cannot be neglected, because a rise in the rate of interest at home tends to mean that a larger share of the home output goes to capital, and a smaller share to labour. In the United Kingdom wage-earners own but little capital, so that they

do not recover as owners of capital what they lose as sellers of labour. But in the long run wage-earners also benefit by the development of foreign countries. British goods can be exchanged against goods produced abroad, to the benefit of all countries concerned. The fact, too, that the aggregate national income tends to be larger is in the long run also of importance to wage-earners; for its consumption by persons resident in the United Kingdom is likely to mean an increased demand for labour in certain kinds of industry—*e.g.* for artists, printers, dressmakers, domestic servants, gardeners, chauffeurs, and others engaged in the motor industry. Thus, in the long run, foreign investment tends to produce an improvement in the economic lot of the wage-earner—an increased demand for work-people, as well as for capital at home—which may outweigh the injurious effects of a high rate of interest upon those who own no considerable amount of capital. The benefit which British capital invested abroad confers on foreign countries may, however, possibly be greater than the advantage which it brings to British wage-earners. In this case the inducement to emigrate may increase, despite the improvement in their position at home. It may be noted that the effects of foreign investment may be very different in some countries from the effects in others. In France, where the ownership of property is much more widely spread than in the United Kingdom, the income from foreign investments is probably not consumed to the same extent in the form of luxuries.

Probably, also, the rise in the rate of interest in France is less injurious to the working classes, since they are also capitalists. The comparative smallness of emigration from France may also perhaps be related to the same phenomenon.

In Chapters IV., V., and VI., some historical aspects of foreign investment were discussed. It was shown that foreign investment by absentees has for centuries been of importance. Needy monarchs and princes frequently borrowed abroad from the Lombards, in Venice, in Antwerp, or in Amsterdam; and the last of these places became in course of time the chief financial centre of Europe. British foreign investment developed more slowly, and although British subjects owned property in the West Indies, in the American Colonies, and in India, there was perhaps in the eighteenth century more Dutch capital invested in Great Britain than there was British capital invested abroad. But owing to the industrial revolution, which began during that century, British wealth and capital were expanding at a rapid rate; and the Napoleonic Wars marked at once the overthrow of Amsterdam as the financial centre of the world, and the rise of London to a position of predominance. The enormous demands of the British Government, it is true, during the war period to a great extent checked the growth of capital in the United Kingdom, so that the development of foreign investments was retarded, and a large amount of Continental capital was left here—in Government loans and otherwise—for safe keeping.

But the decade after 1815 saw a complete change. Not only was foreign capital withdrawn from the United Kingdom, and its place filled by British capital, but a very large sum was lent abroad to European governments, to South American governments, and to various foreign mining and commercial concerns. From that time forward the outward flow of British capital was almost incessant, though the stream was in some years swelled to the dimensions of a torrent, while in others it was nearly dried up. The United States of America and the continent of Europe for many years attracted most attention from British investors. In America the money went largely into banks, into loans floated by the various states for public works, and into private companies for providing public utilities. European government loans were largely subscribed here, while large sums were invested in mining enterprises and engineering and manufacturing works. The development of the joint-stock system greatly facilitated foreign investment by distant investors. Railways were peculiarly suited for joint-stock management in many countries, since they required a large capital and could be operated substantially in a routine manner. Some countries, however, either because they could obtain the capital more cheaply by pledging the Government credit, or for other reasons, preferred to undertake the construction and management of the railways themselves. Either system necessitated the borrowing of an enormous amount of money by the countries in which railways were built,

and a considerable proportion was subscribed in Great Britain. In America the English manufacturers and contractors were often paid in bonds, which could then be sold in the market; and at least one American railway company was controlled from the beginning by British investors through its share capital. In Europe, it was Belgian and French railways that received most attention at the hands of British investors. Spanish, Austrian, and Russian lines attracted some interest, but German lines comparatively little.

By the middle of the nineteenth century, British investors were noticeably beginning to look beyond Europe and the United States for suitable fields of investment. The gold discoveries in California in 1849 had caused some British capital to flow to the Pacific coast of the United States; the Australian discoveries made Australia, for the time being, a centre of speculation. Railways and banks in Canada were appealing to British capitalists; while after 1857 an important stream of capital poured into India for railway construction. This widening of the vision of British investors corresponded with, and was perhaps in some measure caused by, the development of wealth and capital in Continental Europe. Investors soon regained confidence after the revolutions of 1848–49, and British investment on the Continent attained enormous dimensions during the 'fifties. But the thrifty Frenchman was ceasing to hoard, and his capital was becoming available, even for foreign investment. The most significant sign of this

was the commencement of the Suez Canal. Germany was also progressing rapidly in wealth, and began to invest abroad. Her investments in United States bonds and railways securities during the American Civil War were particularly successful, for German investors came in at a time when British and French investors were stricken with panic.

The period 1860–71 was marked by enormous borrowing for war purposes, but in addition many governments were anxious to borrow for internal development. In 1870, therefore, an enormous boom in foreign loans began, and investors lent large sums, very often without due consideration, to some of the weakest of States. When the commercial "boom" of 1872–73 came to an end, and prices began to drop, a number of these States defaulted. British investors then became as cautious as they had been daring, and withdrew some of their capital from abroad, either by sale or by neglecting to reinvest on redemption.

The early 'eighties and the later 'eighties were again a period of active foreign investment, notably in Australia, in South America, and in the United States and Canada; but the end of the decade brought a collapse in Argentina, followed by a crisis in Australia, and soon afterwards by a crash in America. During the following years, therefore, British foreign investment was on a comparatively small scale. Even when business began to revive in the United States, British capital did not again flow to that quarter. The movement was in fact reversed,

and for some years United States capitalists purchased European holdings of American railway securities. American capital even began to make its appearance in Europe, as well as in Canada and Central and South America. The Boer War acted as a further check upon British foreign investment, and it was not till well after the beginning of the new century that British foreign investments entered upon a stage of renewed activity, stimulated by the rise of prices, which lightened the burden of borrowing countries, and by the widespread prosperity and security in most quarters of the world. The United States again became an important field for foreign investment, partly because America was again progressing at a great rate and required much capital, and partly because American domestic capital was becoming keenly interested in developing other parts of the American continent. British capitalists were mainly interested in Canada and South America, but big streams flowed to India and the East, to Australia, to various parts of Africa, and even to Russia. The objects of investment, and the agencies to which capital was entrusted, were of diverse kinds. Governments, provinces, and municipalities, British joint-stock companies trading abroad, and foreign joint-stock companies, all competed with one another for capital. Railway construction was still probably the most important object for which capital was required, but the electrical industry, mining, public works, banks, and mortgages were of very great importance, and British investment in manufacturing

and industrial enterprises was developed rapidly. Thus the scope for British investment abroad has enormously widened. There is a demand for investment in almost every quarter of the world, and the number of industries which can make a successful appeal even to distant capitalists has greatly increased. The signs are therefore favourable to a continued development of British foreign investments in the future, at a rate quite as rapid, if not more rapid, than ever in the past.

In the last two chapters, some statistical aspects of the export of capital were considered. The Board of Trade figures of imports and exports do not represent the whole value of commercial transactions between the United Kingdom and foreign countries. They include some items of a non-commercial kind, such as remittances by former emigrants. On the other hand, the import statistics include sums which are not obtained from foreigners, but represent charges added on by British shipowners. Exports being valued f.o.b., exclude a similar value added on before goods are landed at foreign ports. In addition, account must be taken of numerous services performed on behalf of foreigners, either in this country or abroad, which entitle the United Kingdom to increase its imports. Of this kind are various financial and banking services, and many London expenses of the Indian Government. Similar services performed on behalf of this country by foreigners must also be reckoned in, where they are not included in the import statistics. Further, it must be borne in mind that

the Board of Trade valuations are themselves more or less imperfect.

After estimating the principal items for which allowance must be made, statistics were obtained from 1870 to 1912, which represent roughly the difference between interest plus capital coming into the United Kingdom, and interest plus capital going out. Assuming that foreign capital coming into the United Kingdom, and interest on foreign capital going out, are relatively unimportant, and approximately balance one another, the figures were taken to represent the difference between interest on British foreign investments and capital exports in each year. A separate estimate was then made of the amount of income derived in each year from British foreign investments, based on figures published by the Inland Revenue Commissioners. Thus figures were reached, representing roughly the amount of capital exported in each year since 1870.

In the last chapter, the statistics of capital exports, evolved in Chapter VII., were compared with figures of capital issues in London for investment abroad, with various evidence as to the fluctuations of investment in the United Kingdom, with unemployment and wages statistics, and with the emigration returns. Home and foreign investment are not always active at the same time; but large investments at home or abroad appear to coincide in point of time with diminished unemployment and increased wages. Moreover, rapid outflows of capital and of labour to foreign countries, in general, go together. On the

other hand, there are some marked differences in the fluctuations of London capital issues for foreign investments and the curve representing capital exports, possibly owing to circumstances affecting the money market, which influence the capital issues of particular years.

The statistical evidence as to the relation between capital exports and the progress and well-being of the United Kingdom, which is here brought together, cannot be considered as other than tentative. An investigation of the problem along these lines, however, is of the utmost importance, if precise knowledge of the causes and effects of foreign investment is to be attained. But such an investigation requires more complete statistics than at present exist. The probable growth of savings in the future, and an almost certain continuance of foreign investment on an enormous scale, make the call for information on this matter all the more urgent. Meanwhile the importance which the problem has already assumed may be held to justify the investigation of the preceding pages.

APPENDIX A

FRENCH AND GERMAN INVESTMENTS

I. FRANCE.—New issues of securities and introductions on the French Bourses since 1895 have been as follows, according to the *Economiste Européen* of Paris:—

In Millions of £.

	Foreign Securities.	French Securities.	Total.
1895	...	...	32·48
1896	...	...	40·18
1897	...	...	18·07
1898	...	...	53·32
1899	...	...	67·63
1900	53·58	50·75	104·33
1901	82·05	25·66	107·71
1902	57·12	11·52	68·64
1903	94·24	31·12	125·36
1904	115·40	17·64	133·04
1905	120·00	35·44	155·44
1906	168·24	34·80	203·04
1907	75·16	38·72	113·88
1908	109·96	29·24	139·20
1909	100·36	71·40	171·76
1910	189·04	35·40	224·44
1911	155·28	32·56	187·84
1912	123·24	78·40	201·64

FRENCH AND GERMAN INVESTMENTS—*continued.*

II. GERMANY. — According to the German *Statistisches Jahrbuch*, the nominal value of securities admitted to quotation on the German Bourses in each year since 1897 was as follows:—

In Millions of £.

	Foreign Securities.	German Securities.	Total.
1897	43·7	120·1	163·8
1898	87·6	96·5	184·1
1899	42·9	108·6	151·5
1900	22·0	114·8	136·8
1901	38·3	117·0	155·3
1902	73·0	105·1	178·1
1903	30·2	93·6	123·8
1904	55·9	121·5	177·4
1905	246·8 *	156·0	402·8
1906	44·4	138·2	182·6
1907	350·9 †	125·3	476·2
1908	37·3	176·2	213·5
1909	48·7	166·1	214·8
1910	105·0 ‡	133·8	138·8
1911	60·4	132·8	193·2
1912	41·7	168·1	209·8

* Including foreign Government loans amounting to £126·5 millions.
† Including foreign Government loans amounting to £334·4 millions.
‡ Including foreign Government loans amounting to £55·1 millions.

According to the *Frankfurter Zeitung*, capital issues in Germany for investment abroad amounted to £34,245,000 in 1911, £16,545,000 in 1912, and £33,064,000 in 1913.

APPENDIX B

OCEAN FREIGHT RATES

(STEAMSHIPS)

I. The following annual average rates of freight relate to homeward voyages in the period 1870–1888. The second column in each case shows the fluctuations in percentages of the year 1884.

	New York to Liverpool. Wheat.		Azoff to United Kingdom. Wheat.		Odessa to United Kingdom. Wheat.		Sulina to United Kingdom. Wheat.	
	d.							
1870	$5\frac{7}{8}$	167	...		...		...	
1871	$8\frac{1}{4}$	235	...		...		...	
1872	$7\frac{3}{4}$	221	55/	228	45/	261	...	
1873	$10\frac{9}{16}$	302	48/7	202	44/7	258	...	
1874	$8\frac{13}{16}$	252	49/5	205	38/6	223	...	
1875	$8\frac{7}{16}$	240	43/0½	178	30/6½	177	4/11½	176
1876	8	228	46/9	194	34/4½	200	5/7	198
1877	7	200	46/8	194	34/4½	200	4/10	172
1878	$7\frac{5}{8}$	218	38/5½	160	28/1½	163	4/0½	144
1879	$6\frac{3}{16}$	176	31/4½	130	23/1½	134	3/6½	126
1880	$5\frac{13}{16}$	166	27/11½	116	23/2½	135	3/5¾	123
1881	$4\frac{1}{2}$	118	31/2	129	25/4½	147	3/10¼	137
1882	$3\frac{15}{16}$	113	31/7¼	131	24/9½	144	4/0¼	143
1883	$4\frac{5}{16}$	130	28/2½	117	20/4¾	118	3/3	115
1884	$3\frac{1}{2}$	100	24/1¾	100	17/2¾	100	2/9¾	100
1885	$2\frac{3}{16}$	62	21/3	92	15/4¾	89	2/6¼	76
1886	$3\frac{5}{16}$	95	18/11½	79	14/	81	2/4¼	84
1887	$2\frac{1}{2}$	71	21/1	87	17/	99	2/10	101
1888	$2\frac{5}{8}$	75	30/3¼	123	23/4	135	3/8	132

OCEAN FREIGHT RATES—*continued.*

II. The following annual average rates of freight relate to homeward voyages in the period 1894–1912. The second column in each case shows the fluctuations in percentages of the year 1900.

NEW YORK TO LIVERPOOL

Year.	Flour. Per Ton.		Wheat. Per Bushel.		Beef. Per Tierce.		Pork. Per Barrel.		Bacon. Per Ton.	
			d.							
1894	7/9½	62	1 1/16	57	2/5	67	1/9	65	13/11	76
1895	7/9	61	2 3/16	76	2/2½	61	1/5½	54	11/4½	62
1896	10/9½	85	2 1/16	87	2/11½	82	2/0½	76	14/9	81
1897	11/3½	89	3 1/16	91	2/9½	78	2/	74	14/7½	80
1898	13/9	109	3 1/16	102	3/6½	98	2/7½	98	18/11½	104
1899	10/6	83	2 1/16	72	2/10	78	2/0½	75	14/3½	78
1900	12/7½	100	3½	100	3/7½	100	2/8½	100	18/3½	100
1901	5/11½	47	1½	36	1/6	41	1/2	43	7/3½	40
1902	7/4½	58	1 1/16	43	1/11½	54	1/5½	55	9/10	54
1903	7/6	59	1 1/16	43	2/1	58	1/11½	72	10/8½	58
1904	6/1 7/16	48	1½	33	1/8	46	1/2½	44	8/2½	45
1905	7/8	61	1½	48	2/1½	58	1/1½	42	10/5½	57
1906	8/4 7/16	66	1 1/16	43	2/0½	56	1/6½	58	10/2½	56
1907	7/6	59	1½	52	2/	55	1/6	55	10/	55
1908	7/	55	1 5/16	46	2/5½	68	1/9½	66	12/4½	68
1909	6/5½	51	1⅜	48	3/	83	2/3	83	15/	82
1910	7/2	57	1¼	44	3/	83	2/3	83	15/	82
1911	8/5½	67	2	57	3/	83	2/3	83	15/	82
1912	15/	119	3⅜	107	3/6	96	2/7½	97	17/6	93

NEW YORK TO LONDON

Year.	Flour. Per Ton.		Wheat. Per Bushel.		Beef. Per Tierce.		Pork. Per Barrel.		Bacon. Per Ton.	
			d.							
1894	8/6½	51	1·91	47	2/8	58	2/1½	56	14/4½	63
1895	8/5½	51	2·13	52	2/4½	52	1/10½	49	12/8	56
1896	12/0½	72	3·23	80	3/2	69	2/4½	62	15/8	69
1897	13/1	78	3·47	85	3/4½	73	2/4½	62	16/5½	72
1898	14/4	86	3·93	97	3/11½	86	3/2½	83	19/5	85
1899	11/9	70	3·03	75	3/4½	72	2/8½	70	16/7½	73
1900	16/8½	100	4·06	100	4/7½	100	3/9½	100	22/9	100
1901	8/7½	52	1·86	45	3/2	68	2/7½	69	15/5½	68
1902	7/10½	47	1·63	40	2/6	54	2/	52	12/6	55
1903	7/8½	46	1·64	40	2/6	54	2/1	55	12/6	55
1904	6/7½	39	1·35	33	2/6½	55	2/6	66	12/7	55
1905	9/3	55	1·93	48	2/8	58	2/5½	65	12/11½	57
1906	9/2½	55	1·82	45	3/1	67	2/6	66	15/5	68
1907	9/1½	54	2·18	54	3/0½	65	2/6½	66	15/0½	66
1908	7/7½	45	1·98	49	3/	65	2/6½	66	15/2½	67
1909	7/3	43	1·59	39	3/4½	73	2/8½	70	16/10½	74
1910	7/2	43	1·25	31	3/6	76	2/9	72	17/6	77
1911	8/5	50	2·0	49	3/6	76	2/7½	69	17/6	77
1912	15/8½	94	4·25	105	4/1½	89	3/1	81	20/7½	91

Ocean Freight Rates (II.)—*continued.*

Year.	From Bombay to United Kingdom.		From Calcutta to United Kingdom.		From Rice Ports to United Kingdom.		From River Plate to United Kingdom.		From Pensacola to United Kingdom.		From Bilbao to Tyne.		From Sulina to United Kingdom.		From Azoff to United Kingdom.		From Odessa to United Kingdom.		From Archangel to London.		From Lower Bothnia to London.	
	General Cargo. Per Ton.		General Cargo. Per Ton.		Rice.														Deals.		Deals.	
1894	17/8½	106	28/1½	104	29/2½	103	22/11	100	101/9	85	4/11½	73	11/4½	92	13/	90	10/5½	91	37/10½	71	21/9	76
1895	15/4	91	23/1½	86	25/8½	90	17/11½	78	100/1½	83	4/9½	71	10/1½	82	12/5½	86	9/7½	84	37/9½	70	23/7	82
1896	11/0½	66	17/9	66	19/3½	68	15/5½	67	98/7½	82	5/5	80	10/7½	86	12/11½	89	10/1½	88	38/4½	72	24/6½	86
1897	11/5½	68	19/11½	74	20/5½	72	16/5	71	104/4½	87	5/8	84	9/8½	78	11/5½	79	9/1½	80	39/7½	74	25/11½	90
1898	19/8	117	28/2½	104	29/6	104	18/6	80	118/10	99	5/9	85	10/9	87	13/1½	91	10/5½	91	41/3	77	27/0½	94
1899	17/	101	28/8½	106	27/10½	98	22/3	97	104/6	87	6/2½	92	9/6½	77	11/5½	79	9/2½	81	42/4½	91	26/7	93
1900	16/9½	100	27/0½	100	28/5½	100	23/0½	100	120/	100	6/9½	100	12/4½	100	14/6	100	11/5½	100	53/8½	100	28/8½	100
1901	14/1½	84	21/3½	79	22/5½	79	16/1	70	95/6	80	4/8	69	10/0½	81	11/3	78	9/5½	82	41/3½	77	25/	87
1902	12/5½	74	19/2	71	20/10½	72	14/4	62	79/11	67	4/7½	69	9/3½	75	10/6½	73	8/10	77	35/9½	67	22/3	77
1903	13/8½	82	19/5	72	22/1	78	15/2	66	83/	69	4/7½	68	8/8½	70	10/3	71	8/4½	73	35/8	66	22/7½	79
1904	15/6½	93	21/6½	80	22/7	79	15/11½	69	80/10½	67	4/3	63	7/10	63	9/10	68	7/9½	68	34/7	64	21/4½	74
1905	12/11½	77	20/3½	75	..		14/10½	65	83/6	70	4/10½	72	8/7½	69	10/5½	72	8/2½	72	34/4	74	22/4½	78
1906	12/7½	75	20/	74	21/4½	75	10/9	47	82/	68	4/10½	72	..		10/2½	70	8/5½	74	36/10½	69	23/8	82
1907	16/9	100	23/6	87	22/7½	80	11/6½	50	85/	71	4/7½	68	8/3½	67	10/3	71	8/4½	73	36/3½	68	23/3	81
1908	11/1½	66	14/3½	53	19/	67	11/4½	49	78/11½	66	3/8	54	6/2½	50	7/9½	54	6/3	55	32/	60	21/	73
1909	16/3	97	20/7½	76	20/9	73	10/8½	47	72/6	60	3/11½	59	6/11½	56	8/4	57	7/4½	65	32/9½	61	21/8½	76
1910	18/1½	108	19/10	73	22/	77	9/	39	81/3	68	4/6½	67	8/10½	72	9/8½	67	8/9½	85	33/2½	62	24/2½	85
1911	19/2½	115	22/3½	82	23/7	83	10/3½	45	78/4	65	4/9	70	8/11½	73	10/1	69	9/1½	79	35/1	65	25/10	90
1912	25/	150	29/6	109	34/4½	121	21/3½	93	118/	98	5/8	84	12/6	101	15/2	104	13/3	115	50/0½	93	35/11½	125

III. The following annual averages relate

COAL FREIGHTS FROM WALES.

Year.	To Genoa.		To Port Said.		To Leghorn.		To Malta.		To Marseilles.	
									Fr.	
1870	15/1	146	18/2	155	15/	143	14/2½	168	18½	136
1871	14/10	144	17/7	150	15/3	145	14/0½	166	16	117
1872	16/3	158	18/7	159	16/5	156	14/7	172	17	126
1873	17/4	168	19/10	170	16/6	157	15/1	179	18	133
1874	16/9	152	19/11	170	16/10	159	14/	166	18¾	137
1875	15/	145	16/2	138	15/4	145	12/11	153	12	87
1876	14/4	139	14/	120	13/10	131	11/7	137	16	117
1877	13/11	135	15/2	130	13/5	127	11/9	139	15	110
1878	13/11	135	15/1	129	13/8	130	10/4	122	15	112
1879	13/9	133	14/7	123	13/6½	128	10/4	122	15	115
1880	14/5½	140	15/2	130	14/2	134	11/7½	138	16½	121
1881	13/1½	127	13/7	116	13/8	130	11/8½	139	16	116
1882	12/3½	119	12/5½	123	12/9	121	10/5½	124	15½	113
1883	10/10½	105	12/11½	111	11/4½	108	9/9	115	14	103
1884	10/4	100	11/8½	100	10/6½	100	8/5½	100	13¾	100
1885	9/7	93	9/10½	84	9/11	94	8/1½	96	12⅝	94
1886	9/7	93	9/7	82	9/10	93	8/4½	99	12½	92
1887	10/	97	9/4½	125	10/2	96	9/	106	14	103
1888	9/11	96	9/11	85	10/5½	99	8/3	98	11⅜	86

COAL FREIGHTS FROM WALES.

Year.	To Rio de Janeiro.		To River Plate, Buenos Ayres.		To Montevideo.		To Valparaiso.		To Cape Verde.	
1870	23/4	113	32/5	130	27/5	127	22/	98	13/2	126
1871	23/9	115	31/5	126	27/4	127	25/	111	13/7	122
1872	25/4	122	32/	128	29/	134	30/1	134	14/3	129
1873	31/9	154	37/8	151	34/5	160	33/5	149	15/3	138
1874	27/2	131	34/3	138	30/5	141	30/	133	14/2	128
1875	22/10	110	28/11	113	24/	111	22/10	101	12/3	111
1876	22/1	107	25/10	104	22/5	104	19/11	89	10/4	93
1877	22/7	109	22/11	92	21/3	99	18/6	82	11/1	100
1878	22/1	107	24/3	97	21/6	100	19/6	87	10/9	97
1879	22/	106	25/9	103	22/9	105	20/3	90	10/7	96
1880	22/9	110	25/7	103	23/	106	21/10	97	10/7	96
1881	21/8	105	24/10	100	21/9	101	21/6	96	10/11	98
1882	21/5	104	24/10	100	21/8	100	22/2	98	12/10	116
1883	22/6	109	25/9	103	23/9	110	20/5	91	12/3	111
1884	20/8	100	24/11	100	21/7	100	22/6	100	11/1	100
1885	17/10½	86	21/9	87	19/3	89	21/3	94	9/4½	85
1886	16/10	81	19/7½	79	17/5½	81	20/8	92	9/4½	85
1887	18/4	89	21/1	85	19/7	91	21/1	93	9/11	89
1888	23/1	111	27/	108	24/10½	115	25/4	112	12/3	111

RATES—*continued.*

to outward freights in the period 1870–1888.

COAL FREIGHTS FROM WALES.												
To Naples.		To Odessa.		To Bombay.		To Calcutta.		To Hong-Kong.		To Singapore.	
15/3	143	14/3½	157	30/	159	27/6	167	30/7	131	25/11½	130
15/2	142	13/4	146	26/1	138	22/	133	32/8	140	24/5	122
16/6	155	15/7	171	25/10	137	16/10	102	35/5	152	24/7	123
18/3	172	15/11	174	20/8	109	20/1	122	37/6	161	23/10	120
17/9	167	15/9	172	28/2	149	22/	133	33/8	144	27/5	139
14/8	138	14/	154	23/4	124	22/2	134	28/2	121	22/9	114
14/1	132	13/6	148	21/6	113	18/10	114	27/2	117	21/9	109
14/	132	...		21/3	112	16/10½	102	27/9	119	22/6	113
13/5	126	12/3	134	25/7	135	20/4	123	27/2	117	24/11	125
13/10	130	12/11	142	26/2	138	20/6	124	27/2	117	25/	126
14/8	138	14/5	158	23/3	123	18/2	110	25/	107	22/8	114
13/9	129	13/3	145	18/2	96	15/8	95	22/9	98	19/3	96
12/6½	118	11/7½	127	18/3	96	15/5	93	22/4	96	18/9½	94
11/	103	10/3	112	18/4½	97	16/	97	25/8	110	20/8	104
10/7	100	9/1½	100	18/11	100	16/6	100	23/4	100	19/11	100
10/2	96	9/1½	100	17/2	91	14/4	87	21/5	92	18/2	91
10/	94	9/1½	100	15/6	82	12/2	74	19/7	84	17/2	86
10/4½	97	8/9½	96	17/5	92	14/11	90	21/7	92	18/3½	92
10/3	96	9/5½	103	22/8	120	18/10	114	25/8	110	25/	126

COAL FREIGHTS FROM WALES.		COAL FREIGHTS FROM TYNE, ETC.									
To Callao.		To Genoa.		To Naples.		To Leghorn.		To Venice.		To Buenos Ayres.	
21/6	91	18/3	187	18/3¼	170	18/6	171	19/7½	173	32/10	132
24/5	103	17/5	179	17/8½	165	17/6¼	163	20/7½	181	31/9	127
29/5	124	20/0½	206	19/2	179	19/2	177	22/1½	195	32/	128
34/	143	19/7½	202	19/6	182	19/9	183	23/7½	208	38/	153
26/11	113	17/7½	181	18/5	172	18/3¼	169	21/7½	191	34/10	140
21/11	92	16/3	167	15/11⅜	149	16/3⅜	151	18/6⅜	163	28/6	114
19/8	83	14/5	148	14/11½	140	14/2½	131	16/5⅜	145	25/6	102
18/6	78	14/8⅜	151	14/11½	140	14/9½	137	16/9⅜	148	24/8	99
21/	88	13/10	142	14/3	133	14/5½	133	16/9½	148	24/6	98
22/2	93	13/2½	135	13/11½	130	13/11½	129	16/4	144	25/4	102
24/5	97	13/10	142	14/9	138	14/4	133	16/3	143	25/5	102
22/6	95	12/10	132	13/9	128	13/	120	14/11	132	24/3	97
23/4	98	11/2	114	12/6½	117	12/	111	13/11½	123	24/7	99
23/8	100	10/2½	105	11/0⅜	103	10/11	101	12/7¼	111	25/8	103
23/9	100	9/9	100	10/8½	100	10/9⅜	100	11/4	100	24/11	100
22/7	95	8/8½	99	10/	93	9/7⅜	89	10/2½	90	21/9	87
19/9	83	8/9⅜	91	8/	75	9/5½	87	11/1⅜	98	19/7½	79
20/11	88	8/7½	89	8/3½	78	9/5½	87	10/6	93	21/1	85
28/9	121	8/5	86	9/6	89	9/6	88	10/4½	92	26/2	105

Ocean Freight Rates—*continued.*

IV. The following annual average freights relate to outward voyages in the period 1894–1912.*

Year.	Coal Freights from Tyne, Etc.																					
	To Hamburg.		To Copenhagen.		To Stockholm.		To Stettin.		To Cronstadt.		To Cadiz.		To Gibraltar.		To Barcelona.		To Marseilles.		To Genoa.	
1894	4/1¾	80	4/3¾	64	3/11½	64	4/3	70	3/11½	60	5/2	59	5/4½	62	7/1½	65	5/4½	53	5/0¼	49
1895	4/1½	79	4/0½	60	4/	64	4/5¾	74	3/11¼	60	5/	57	5/3½	61	7/9½	71	5/5	53	5/0½	49
1896	4/2	80	3/10¾	58	4/1	66	4/4	71	3/8½	56	5/4	61	5/6¾	64	8/9¾	80	6/5¼	63	6/1¼	60
1897	4/4	83	4/4½	64	4/6½	73	4/9	78	3/11¾	60	5/9½	67	5/11¼	68	8/3¼	75	7/6	73	7/3¼	71
1898	4/5	85	4/11	73	5/4	86	5/6	90	5/3	80	6/7	76	6/10	79	9/7½	87	8/9¾	86	8/6½	84
1899	4/7	88	5/10¾	87	6/	97	5/9½	95	5/11¼	90	6/11½	80	7/0¼	81	9/8¾	88	9/1¾	89	8/7¾	85
1900	5/2½	100	6/9¼	100	6/2½	100	6/1	100	6/7	100	8/8½	100	8/8½	100	11/0½	100	10/2¾	100	10/2½	100
1901	4/	77	4/6¾	67	4/4	70	4/6¾	75	4/0½	61	5/10½	67	6/	69	7/4	66	6/9¼	66	6/7½	65
1902	3/8½	71	4/0¾	60	4/0½	65	4/7¾	76	4/0¼	61	4/11½	57	5/3¾	61	6/	54	5/5	53	5/2¼	51
1903	3/7½	70	4/1	60	4/3¾	69	4/3½	71	3/10	58	4/11	56	5/11½	69	6/5½	58	5/9½	57	5/6½	54
1904	3/5½	66	3/10¾	57	4/0	65	4/4¾	72	3/9	57	4/9½	55	5/7	64	6/0¾	55	5/7	55	5/4	52
1905	3/8½	71	4/3¾	64	4/5	71	4/6¾	75	4/0¼	61	5/5½	62	5/10	67	6/7½	60	6/4	62	6/2¼	60
1906	3/8½	71	4/2	62	4/6½	73	4/9½	78	4/0¾	62	6/4	73	5/7½	65	6/11	63	6/6	64	6/7	64
1907	3/10¾	75	4/2	62	4/10	78	4/11¼	81	4/5½	67	6/9	78	6/0½	70	7/5½	67	6/8½	66	7/3	71
1908	3/2½	62	4/2½	62	4/3½	69	4/2½	69	3/9	57	5/11	68	5/10½	68	6/7½	60	6/1¼	60	6/2¼	60
1909	3/3¼	63	3/9½	56	4/3¾	69	4/1¾	68	3/7¾	55	5/6¾	64	5/10	67	6/7½	60	5/11¼	58	6/3	61
1910	3/3½	63	3/7¾	54	4/0¼	65	4/0½	66	3/6¼	53	5/8¼	65	5/9½	66	6/7¼	60	6/4	62	6/6	63
1911	3/6½	67	5/0½	74	4/7	74	4/0¾	67	4/5½	68	7/9½	89	6/11¼	80	8/3	75	7/5¾	73	7/9¼	76
1912	4/5½	86	6/6¾	97	6/0¾	98	6/1	100	6/1½	93	11/0¾	127	9/2½	106	11/9¾	107	11/3½	111	11/9	115

* From Messrs. Cairns Noble & Co.'s Circulars.

COAL FREIGHTS FROM TYNE, ETC.

Year.	To Malta.		To Venice.		To Constantinople.		To Alexandria.		To Port Said.		To Bilbao.		To River Plate.		To Leghorn.		To Riga.		To North of Norway.	
1894	4/5	45	6/6	50	5/2	47	5/0½	42	5/3½	44	3/4½	71	...		5/3½	51	4/2½	65	4/2½	70
1895	4/5	45	6/6¼	51	4/11½	45	5/1	42	5/6	46	3/1½	66	...		5/2¾	50	4/	62	4/0¾	68
1896	5/0¼	51	7/8	59	5/10½	54	6/5½	54	5/11¾	50	3/2	67	14/5	85	6/8¼	64	4/0½	62	4/2¾	71
1897	6/2	63	8/9	68	7/8½	70	7/4½	61	7/3¼	61	3/5	72	16/0½	94	7/5½	72	4/4	67	4/2½	70
1898	7/9	78	10/4¾	81	9/3¼	84	8/10	74	8/4½	70	3/10¼	82	14/11	87	9/	87	5/3	81	4/4	73
1899	7/11¼	81	10/5	81	8/11½	82	10/0½	84	9/7¼	80	4/2¾	90	11/1¾	65	8/10¾	86	6/1¼	94	5/4	89
1900	9/10	100	13/10¾	100	10/11¼	100	12/	100	11/11¼	100	4/8¾	100	17/0¾	100	10/4¾	100	6/6	100	5/11¾	100
1901	6/0½	61	8/0½	62	7/2	65	7/4½	61	7/1	59	3/8	78	12/11¾	76	7/1½	69	4/4½	67	4/5¼	74
1902	4/5	45	6/3½	49	5/2¼	47	5/4¾	45	5/4	45	3/7¼	76	10/0¾	59	5/7	54	4/3½	66	4/2½	70
1903	4/10	49	6/4¼	49	5/3½	48	5/9¼	48	5/7½	47	3/7¾	77	8/3¾	49	5/9¾	56	4/1½	63	4/0¾	68
1904	4/7½	47	6/2½	48	5/4¾	49	5/4	44	5/1½	43	3/7	76	7/2¾	42	5/9¾	56	4/0½	62	3/7½	61
1905	5/3	53	7/3	57	5/10½	53	6/3¼	52	6/	50	3/8½	78	8/10½	52	6/3	60	4/11	76	4/2	70
1906	5/11¾	61	7/5¾	58	5/10	53	6/8	56	6/1¼	51	4/1½	87	14/1¼	83	6/10¾	66	4/5¾	69	4/3¾	72
1907	6/4¾	65	7/11½	62	6/7½	60	7/3	60	6/5	54	4/8¾	100	14/4½	84	7/3½	70	4/6¼	70	4/4½	73
1908	5/4	54	7/2¾	56	6/3½	57	6/6¼	54	6/3	52	4/4½	93	10/1½	59	6/5¼	62	3/9¾	59	3/9½	64
1909	5/4½	55	7/1¾	55	5/10¾	54	6/1	51	5/8¼	48	4/4	92	9/7¾	57	6/5½	62	3/7¾	56	4/1½	69
1910	5/3½	54	7/6	58	6/3¼	57	6/4¾	53	5/11½	50	4/8	99	15/9	92	6/6½	63	3/7½	56	3/11¼	66
1911	6/4¼	64	8/8½	67	7/4	67	7/6¼	63	7/3¼	61	6/2½	131	17/6	102	8/1	78	4/3	65	5/2¼	87
1912	9/8½	99	12/10¾	100	14/3½	130	11/10½	99	10/2¾	86	7/2	151	21/8½	126	12/3¾	118	6/2½	95	6/7¼	110

APPENDIX C

SHIPPING EARNINGS

Steamship "A," 3100 tons gross, 2000 tons net. Built 1899. Voyage: Tyne—Kem—Kovda—Tyne—Durban—Bombay—Barrow-in-Furness—Barry. 1906–1907.

Tyne—		By Freight. Kem and Kovda to Durban (deals)	£4646
Bunker coal	£362	Bombay to Barrow	3832
Port charges, pilotage and agency, less rebates	40	Gain in exchange and sundries	1
Kem—		Return premium of insurance while at Durban	35
Port charges	119	61 tons of coal remaining in bunkers at Barry (at 12s. less 2½%)	36
Loading	169		
Kovda—			£8550
Port charges, pilotage and agency, less rebates	64		
Loading 575 standards	99		
Tyne—			
Bunker coal	310		
Port charges, pilotage and agency, less rebates	60		
Durban—			
Bunker coal (527·2 tons at 16s. 6d.)	468		
Port charges, pilotage and agency	113		
Discharging	198		
Bombay—			
Port charges, pilotage and agency	45		
Loading	79		
Port Said—			
Canal dues	871		
Port charges, pilotage and agency	26		
Bona—			
Bunker coal (50¾ tons at 19s.)	48		
Port charges, pilotage and agency	4		
Algiers—			
Bunker coal (185 tons at 17s. 3d.)	160		
Port charges, pilotage and agency	5		
Barrow-in-Furness—			
Bunker coal (46·14 tons at 15s. 9d., and labour)	39		
Port charges, pilotage and agency	165		
Discharging (5042 tons of ore)	155		

Time occupied, 185 days.

Profit per day about £18:8:8½.= about 11·35% per annum, after deducting insurance, £2313; management, £578; dry dock, £250.

Wages per day, £5:12:1.

Barry—	
Pilotage	£9
Deck and engine stores, outfit, etc. (of which £8 : 14s. abroad)	228
Provisions (of which £72 : 8s. abroad)	259
Portage bills (£3 abroad) .	1037
Sundries	9
Balance	3410
	£8550

Stores per day, £1 : 4 : 7½.
Provisions, £1 : 8 : 0½; or per man per day, 1s. 1½d.
Coal consumed, 1996 tons.
Average consumption, 16·9 tons per day.
Average speed, 7·8 knots.
Coal shipped abroad, 762 tons.
Remaining at end of voyage, 61 tons.
Expenditure abroad, so far as can be traced, £2352, or about 27·6% of receipts.

SHIPPING EARNINGS—*continued.*

Steamship "A." Voyage: Barry—Montevideo—Bahia Blanca—London —Port Talbot. Year 1907.

Barry—		By Freight. Barry to Montevideo (4276 tons of coal), less commission	£2673
Bunker coal	£644	Freight. Bahia Blanca to London (less dispatch and commission)	3424
Port charges, pilotage and agency	139	Demurrage at Barry	30
Loading	55	Return premiums of insurance while at Montevideo	33
Montevideo—		Return premiums of insurance while at Bahia Blanca	34
Bunker coal (30 tons)	53	68 tons coal remaining at Port Talbot	42
Port charges	88		£6237
Discharging (4190 tons coal at 1s.)	210		
Bahia Blanca—			
Port charges	186		
Loading (5056 tons wheat)	163		
St. Vincent—			
Bunker coal (105 tons at 28s.)	147		
Port charges	5		
Madeira—			
Bunker coal (140 tons at 25s.)	171	Time occupied, 128 days.	
Port charges	5	Wages per day, £5:6:5¼.	
London—		Stores, £1:6:1¾.	
Bunker coal	54	Provisions, £1:7:6¾.	
Port charges	178	Provisions per man per day, 1s. 1d.	
Discharging (4922 tons grain at 4d.)	86	Profit per day about £23:10:4½ = about 17·16% per annum on capital of £31,750, after deducting insurance, £2207; management, £677; dry dock, £250.	
Port Talbot—		Coal consumed, 1339 tons.	
Pilotage	9	Coal remaining, 68 tons.	
Deck and engine stores, outfit, etc. (£1 abroad)	167	Shipped abroad, 275 tons.	
Provisions (£56 abroad)	176	Average consumption, 16·3 tons per day.	
Portage bills	858	Average speed, 7·6 knots.	
Sundries	8	Expenditure abroad = £1084 or 17·4% of receipts.	
Balance	3010		
	£6237		

SHIPPING EARNINGS—*continued.*

Steamship "A." Voyage: Port Talbot—Alexandria—Sulina—Hamburg—Tyne. Year 1907.

Port Talbot—		By Freight. Port Talbot to Alexandria (4769 tons coal), less commission	£1412
Bunker coal	£430		
Port charges	96	Freight. Sulina to Hamburg (maize, rye, and barley), 5066 units, less commission	2059
Loading (tons)	60		
Alexandria—		Return premium of insurance while at Sulina	32
Port charges	109		
Discharging	72	Tug boat charged but not used	2
Sulina—		10% discount on towage	1
Port charges	187		
Loading	123	34 tons coal remaining at Tyne	23
Lighterage	85		
Constantinople—			£3530
Port charges	69		
Algiers—			
Bunker coal (130 tons at 20s., less rebate)	123		
Port charges	4		
Hamburg—			
Bunker coal (40 tons at 15s.)	32		
Port charges	87		
Discharging	229		
Tyne—			
Pilotage	8		
Deck and engine stores, outfit, etc. (£3 abroad)	87		
Provisions (£48 abroad)	109		
Portage bills (£35 abroad)	472		
Sundries	5		
Balance	1144		
	£3530		

Time occupied, 83 days.
Profit per day about £13 : 15 : 7 = about 6·52% per annum after deducting insurance, £2207; management, £499; dry dock, £250.
Wages per day, £5 : 13 : 7½.
Stores, £1 : 0 : 11¼.
Provisions, £1 : 6 : 2½; or per man per day (25 men), 1s. 0½d.
Coal consumed, 803 tons.
Coal remaining, 34 tons.
Average consumption per day, 16·7 tons.
Average speed, 7·7 knots.
Coal shipped abroad, 170 tons.
Expenditure abroad = £1206 or 34·2% of total receipts.

SHIPPING EARNINGS—*continued.*

Steamship "A." Voyage: Tyne—Port Said—Karachi—Cardiff. Year 1907.

Tyne—		By Freight. Tyne Dock to Port Said (6768 tons coke and coal), less brokerage, etc.	£1168
Bunker coal (633½ tons)	£433		
Port charges, pilotage and agency	125		
Loading	46		
Port Said—		Freight. Karachi to Cardiff (wheat in bags, 5527 tons at 17s. 3d. per 18 cwt.), less commission, etc.	4695
Port charges	53		
Discharging	197		
Bunker coal (248 tons at 24s., less rebate)	291	4 tons coal remaining	3
Canal dues	593		£5866
Pilotage and agency	6		
Karachi—			
Port charges, pilotage and agency	59		
Loading (wheat)	146		
Port Said—			
Bunker coal (120 tons at 24s.)	141		
Canal dues	868		
Port charges, pilotage and agency	898		
Algiers—			
Bunker coal (150 tons at 20s.)	142		
Port charges, pilotage and agency	9		
Cardiff—			
Port charges, pilotage and agency	82		
Discharging	133		
Deck and engine stores, outfit, etc.	123		
Provisions (£40 abroad)	135		
Portage bills (£8 abroad)	604		
Sundries	8		
Shifting boards	9		
Balance	1746		
	£5866		

Time occupied, 106 days.
Profit per day about £16 : 9 : 4= about 9·46% per annum after deducting insurance, £2207; management, £548; dry dock, £250.
Wages per day, £5 : 13 : 10¾.
Stores per day, £1 : 3 : 2½.
Provisions, £1 : 5 : 5½.
Provisions per man per day, 1s.
Coal consumed, 1148 tons.
Average consumption per day, 16·78 tons.
Average speed, 8 knots.
Coal shipped abroad, 518 tons.
Coal remaining, 4 tons.
Expenditure abroad=£3451 or 59% of total receipts.

SHIPPING EARNINGS—*continued.*

Steamship "A." Voyage: Cardiff—River Plate Ports—Hamburg—Tyne. Year 1904.

Cardiff—	
Bunker coal	£562
Port charges, pilotage and agency	135
Loading	62
Buenos Ayres—	
Port charges	143
Rosario—	
Port charges	26
Discharging (3946 tons of coal)	197
Pilotage—	
Buenos Ayres—Rosario—Parana	17
Parana—	
Port charges and loading	173
Villa Constitucion (loading)	173
La Plata—	
Bunker coal	80
Port charges	33
St. Vincent—	
Bunker coal (255 tons Welsh)	351
Port charges	11
Hamburg—	
Bunker coal	54
Port charges, pilotage and agency	87
Discharging	156
Tyne—	
Pilotage	6
Provisions (£100 abroad)	218
Portage bills (£4 abroad)	360
Sundries	5
Balance	1972
	£5533

By Freights	£5533

Time occupied, 163 days.
Profit per day about £12 : 2s. = 4·34% per annum after deducting insurance, £2200; management, £469; dry dock, £250.
Wages per day, £5 : 5 : 6½.
Stores, £1 : 5 : 8½.
Provisions, £1 : 6 : 8½; or per man per day, 1s. 0½d.
Average consumption of coal=16·8 tons per day.
Average speed=7·9 knots.
Coal shipped abroad=395 tons.
Coal remaining, 50 tons.
Expenditure abroad=£1605=about 29% of total receipts.

SHIPPING EARNINGS—*continued.*

Steamship "B," 3569 tons gross, 2300 tons net. Voyage: Tyne—Barry—St. Vincent—Tampa—New Orleans—Rotterdam—Newport (Mon.). Year 1908.

Tyne—		By Freight to St. Vincent (4857 tons coal and 17 tons goods), less commission	£1322
Bunker coal (1102 tons)	£624	Freight. Tampa and New Orleans to Rotterdam (5334 tons net weight, less commission)	2146
Port charges, pilotage and agency	61	Medical attendance at St. Vincent, recovered from underwriters	3
Barry—		20 tons coal remaining	12
Port charges, pilotage and agency	145		£3485
Loading (4857 tons coal)	51		
St. Vincent—			
Port charges	30		
Discharging	248		
Tampa—			
Port charges, pilotage and agency	6		
New Orleans—			
Port charges, pilotage and agency	16		
Loading	12		
Norfolk (Va.)—			
Bunker coal (246½ tons)	160		
Port charges, pilotage and agency	37		
Rotterdam—			
Port charges, pilotage and agency	27		
Discharging	26		
Newport—			
Pilotage	11		
Deck and engine stores, outfit, etc.	251		
Provisions (£64 abroad)	190		
Portage bills (£6 abroad)	648		
Sundries	5		
Balance	937		
	£3485		

Time occupied, 106 days.
Profit per day about £8 : 16 : 10 = about ·53% per annum after deducting insurance, £2330; management, £456; dry dock, £250.
Wages per day, £6 : 2 : 2½.
Stores per day, £2 : 7 : 5¼.
Provisions, £1 : 15 : 9; or per man per day (26 men), 1s. 4½d.
Coal consumed, 1329½ tons.
Coal remaining, 20 tons.
Average consumption = 20½ tons per day.
Average speed = 9·2 knots.
Coal shipped abroad, 246½ tons.
Expenditure abroad = £632 or about 18·1% of total receipts.

Steamship "B." Laid up expenses at Rotterdam. Year 1908.

Rotterdam—		By return premium of insurance while at Rotterdam	£137
Harbour wages (2 men)	£17		
Superintendence	7		
	£24		
Balance transferred	113		
	£137		

SHIPPING EARNINGS—*continued.*

Steamship "B." Voyage: Newport (Mon.)—Montevideo—Port Arthur—Galveston—Hamburg—Barry. 1908 to 1909.

Newport—	
Bunker coal	£768
Port charges, pilotage and agency	161
Loading	59
Montevideo—	
Port charges, pilotage and agency	56
Discharging	226
St. Lucia (W.I.)—	
Bunker coal (28 tons)	332
Port charges, pilotage and agency	6
Port Arthur—	
Port charges, pilotage and agency	26
Loading	22
Galveston—	
Port charges, pilotage and agency	11
Loading	4
Newport News—	
Bunker coal (424 tons)	274
Port charges, pilotage and agency	31
Hamburg—	
Bunker coal (90 tons)	61
Port charges, pilotage and agency	63
Barry—	
Pilotage	9
Deck and engine stores and outfit (£13 abroad)	216
Provisions (£97 abroad)	256
Portage bills (£8 abroad)	795
Sundries	12
Balance	1453
	£4840

By Freight. Newport to Montevideo (4593 tons coal at 12s. 3d.)	£2584
Freight. Port Arthur to Galveston	2191
Proceeds of 95 bags of cotton seed	21
Discount on towage	2
Medical attendance recovered	9
63 tons coal remaining	32
	£4840

Time occupied, 169 days; less laid up at Hamburg, 14 days; less repairing circular pump, 9 days. On voyage, 146 days.

Profit per day about £9 : 19 : 0½ = about 1·58% per annum after deducting insurance, £2330; management, £485; dry dock, £250.

Wages per day, £5 : 8 : 11½.

Stores per day, £1 : 9 : 6½.

Provisions, £1 : 15 : 1¼.

Provisions per man per day, 1s. 4d.

Coal consumed, 2038 tons.

Average consumption, 20·1 tons per day.

Average speed, 7·8 knots.

Coal shipped abroad, 834 tons.

Coal remaining, 63 tons.

Expenditure abroad = £1230 = 25·6% of total receipts.

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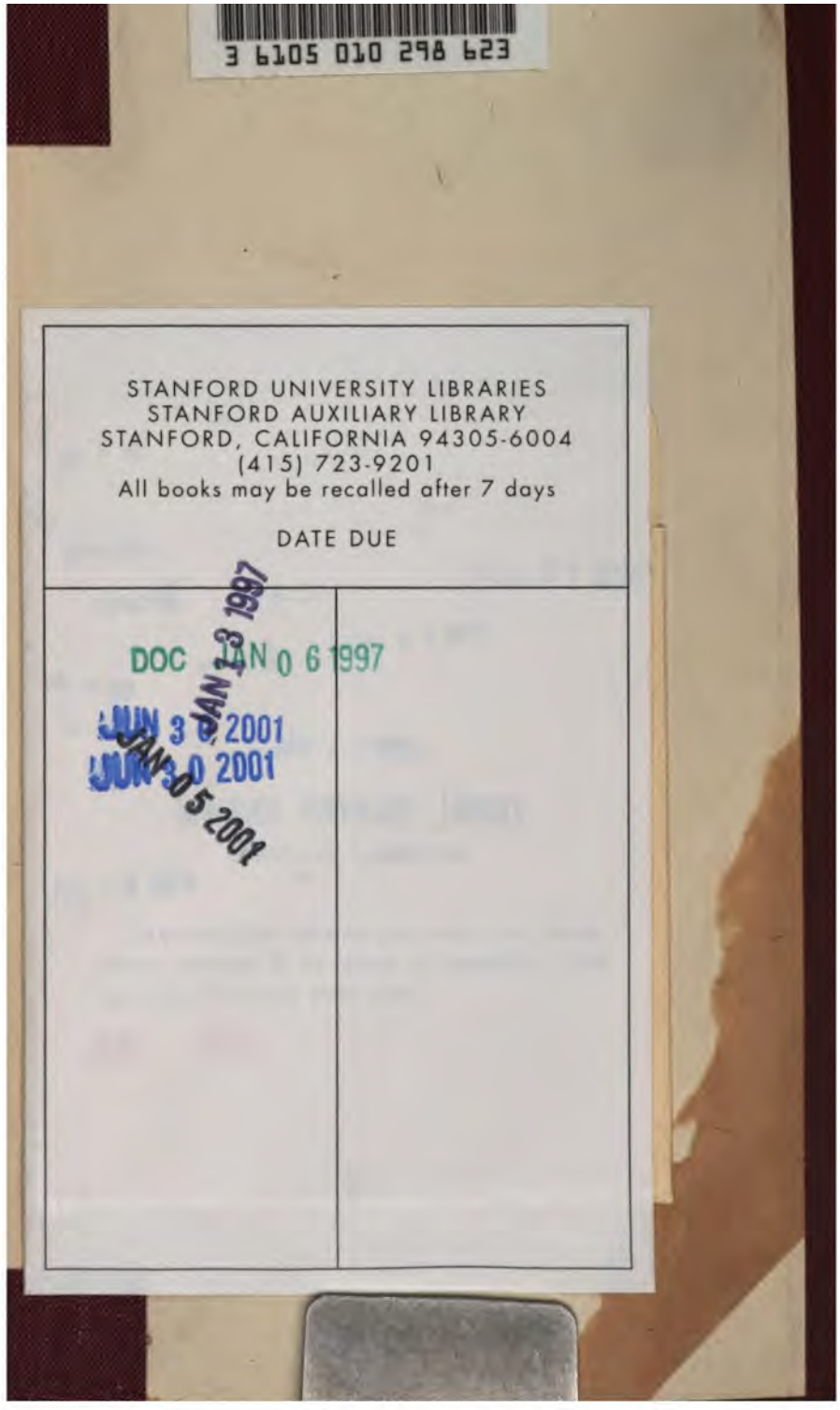
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